SHOPSMITH INC
Form 10-Q
August 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2005

or

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

For the transition period from __________ to__________

Commission File Number 0-9318

SHOPSMITH, INC.

(Exact name of registrant as specified in its charter)

Ohio	31-0811466
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6530 Poe Avenue, Dayton, Ohio	45414
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (937) 898-6070

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. þ Yes o No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

Common shares, without par value: 2,605,233 shares as of July 26, 2005.

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

SHOPSMITH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	July 2, 2005 (Unaudited)	April 2, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,099	$ 1,099
Accounts receivable:		
Trade, less allowance for doubtful accounts:		
$585,887 on July 2, 2005 and $608,060 on April 2, 2005	541,948	1,206,143
Inventories:		
Finished products	930,236	811,215
Raw materials and work in process	1,158,909	1,223,402
Total inventories	2,089,145	2,034,617
Prepaid expenses	297,754	112,754
Total current assets	2,929,946	3,354,613
Properties:		
Land, building and improvements	3,157,054	3,157,054
Machinery, equipment and tooling	6,894,871	6,885,915
Total cost	10,051,925	10,042,969
Less, accumulated depreciation and amortization	7,566,796	7,526,435
Net properties	2,485,129	2,516,534
Long-term portion of accounts receivable trade, less allowance for doubtful accounts:		
$14,234 on July 2, 2005 and $265,688 on April 2, 2005	59,409	1,068,050
Other assets	2,253	2,253
Total assets	$ 5,476,737	$ 6,941,450

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SHOPSMITH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	July 2, 2005 (Unaudited)	April 2, 2005
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,358,819	$ 2,052,134
Revolving line of credit	250,592	577,727
Current portion of long-term debt	1,902,558	1,926,915
Customer advances	77,252	79,547
Accrued liabilities:		
Compensation, employee benefits and payroll taxes	213,798	318,075
Sales taxes payable	49,883	59,685
Accrued recourse liability	241,481	266,768
Accrued expenses	256,085	232,758
Other	54,118	73,349
Total current liabilities	4,404,586	5,586,958
Long-term debt, less current portion		
Total liabilities	4,404,586	5,586,958
Shareholders equity:		
Preferred shares- without par value; authorized 500,000; none issued		
Common shares- without par value; authorized 5,000,000; issued and outstanding 2,605,233	2,806,482	2,806,482
Deficit	(1,734,331)	(1,451,990)
Total shareholders equity	1,072,151	1,354,492
Total liabilities and shareholders equity	$ 5,476,737	$ 6,941,450

See notes to consolidated financial statements.

SHOPSMITH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	Three Months Ended	
	July 2, 2005 (Unaudited)	July 3, 2004 (Unaudited)
Net sales	$ 2,603,012	$ 2,787,436
Cost of products sold	1,267,582	1,395,440
Gross margin	1,335,430	1,391,996
Selling expenses	1,172,696	1,384,268
Administrative expenses	407,256	455,978
Total operating expenses	1,579,952	1,840,246
Loss before other income and expense	(244,522)	(448,250)
Interest income	153	44,538
Interest expense	(38,378)	(53,698)
Other income, net	406	895
Loss before income taxes	(282,341)	(456,515)
Income tax expense		
Net loss	(282,341)	(456,515)
Deficit:		
Beginning	(1,451,990)	(681,171)
Ending	$(1,734,331)	$(1,137,686)
Net loss per common share (Note 3)		
Basic	$ (0.11)	$ (0.18)
Diluted	$ (0.11)	$ (0.18)

See notes to consolidated financial statements.

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SHOPSMITH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	July 2, 2005 (Unaudited)	July 3, 2004 (Unaudited)
Cash flows from operating activities:		
Net loss	$ (282,341)	$(456,515)
Adjustments to reconcile net loss to cash (used in) operating activities		
Depreciation and amortization	40,361	38,433
Provision for doubtful accounts	26,102	47,887
Proceeds from sale of consumer revolving credit receivables	1,138,721	
Changes in operating assets and liabilities:		
Accounts receivable	508,013	344,757
Inventories	(54,528)	(16,818)
Prepaid expenses and other	(185,000)	(102,696)
Accounts payable and customer advances	(695,610)	49,461
Other current liabilities	(135,270)	(122,747)
Cash (used in) operating activities	360,448	(218,238)
Cash flows from investing activities:		
Property additions	(8,956)	(22,692)
Cash (used in) investing activities	(8,956)	(22,692)
Cash flows from financing activities:		
Net borrowings (repayments) on revolving line of credit	(327,135)	614,754
Payments on long-term debt	(24,357)	(373,824)
Cash provided from financing activities	(351,492)	240,930
Net decrease in cash		
Cash and cash equivalents:		
At beginning of period	1,099	800
At end of period	$ 1,099	$ 800

See notes to consolidated financial statements.

SHOPSMITH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management, all adjustments (consisting of only normal and recurring adjustments) have been made as of July 2, 2005 and July 3, 2004 to present the financial statements fairly. However, the results of operations for the three months then ended are not necessarily indicative of results for the full fiscal year. The financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the annual financial statements. The financial statements accompanying this report should be read in conjunction with the financial statements and notes thereto included in the Annual Report to Shareholders for the year ended April 2, 2005.

2. There was no tax benefit during the three-month periods ended July 2, 2005 and July 3, 2004, as the tax benefits were offset by changes in a valuation allowance.

3. Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects per share amounts that would have resulted if dilutive stock options had been converted into common stock. The following reconciles amounts reported in the financial statements:

	Three Months Ended	
	July 2, 2005	July 3, 2004
Net loss	$ (282,341)	$ (456,515)
Weighted average shares	2,605,233	2,605,233
Additional dilutive shares		
Total dilutive shares	2,605,233	2,605,233
Basic loss per share	$ (0.11)	$ (0.18)
Diluted loss per share	$ (0.11)	$ (0.18)

There were no additional dilutive shares included in the computation for the three-month periods ended July 2, 2005 and July 3, 2004 because the effect of stock options were anti-dilutive.

4. On June 3, 2005, the Company executed a Loan Agreement (the Revolving Credit Agreement) with National City Bank. Under the loan documents, the Company may borrow the lesser of (i) $600,000 or (ii) the sum of 80% of accounts receivable due from Lowe s Companies. Interest on the Revolving Credit Agreement is charged at one and one-half percent over the bank s prime rate. The maturity date on the agreement is August 15, 2005. All loans under the Revolving Credit Agreement are at the discretion of National City Bank. At July 2, 2005, $250,592 was outstanding under the Revolving Credit Agreement.

The Revolving Credit Agreement contains the following financial covenants:

2.1 Tangible Net Worth. The Company s Tangible Net Worth shall not at any time be less than the required amount of One Million One Hundred Thirty-five Thousand and 00/100 dollars ($1,135,000.00), tested quarterly.

2.2 Net Income. The Company s Net Income shall not at any time be less than negative Two Hundred Thirty-five Thousand and 00/100 (-$235,000.00), tested quarterly

As of July 2, 2005, the Company was not in compliance with the above two financial covenants, having a tangible net worth of $1,072,151 and a year-to-date net loss of $282,341. The Company has notified the lender of such noncompliance, but no waiver has been obtained. Failure to obtain a waiver could materially affect the Company s financial position, liquidity, and operations.

In connection with the Revolving Credit Agreement, Mr. John R. Folkerth, Chairman and Chief Executive Officer of the Company, delivered to Provident Bank (National City Bank is successor to Provident Bank) a Continuing Unconditional Guaranty pursuant to which Mr. Folkerth guaranteed repayment of $200,000 of the indebtedness then or thereafter owing by the Company to the Bank. In consideration of that Guaranty, the Company has agreed to pay to Mr. Folkerth an annual fee of $3,000 (being 1.5% of the guaranteed amount).

On June 29, 2004, the Company refinanced a mortgage note on its building with a mortgage note from Provident Bank in the amount of $2,000,000 with interest at one-quarter percent over the bank s prime rate. The note requires monthly payments of interest and from $8,000 to $10,000 of the principal. In August 2009, the remaining balance on the note of approximately $1,477,000 will become due. At July 2, 2005, there was $1,902,558 outstanding under the building mortgage agreement.

Under the terms of the mortgage loan, default by the Company under the Revolving Credit Agreement can trigger default under the mortgage loan. In the event of default, Provident Bank may declare the mortgage loan immediately due and payable. The outstanding balance of the mortgage note has been classified as a current liability in the accompanying consolidated balance sheets due to the Company s noncompliance with the financial covenants of its Revolving Credit Agreement. The Company has requested a forbearance agreement from National City Bank (successor to Provident Bank) concerning the mortgage loan, but no such agreement is yet in place.

The mortgage loan and the revolving credit loans are collateralized by a mortgage on, or security interest in, substantially all assets of the Company.

The Company is dependent upon the Revolving Credit Agreement to fund operations during periods of negative cash flow. Termination of the Revolving Credit Agreement, without the establishment of a substitute credit facility, would create significant liquidity issues for the Company.

5. A major retailer (Lowe s) represented 35% and 44% of net sales for the quarters ended July 2, 2005 and July 3, 2004, respectively. This retailer also represented 44% and 31% of trade accounts receivable at July 2, 2005 and April 2, 2005, respectively.

6. The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, and, accordingly, accounts for its stock option plans using the intrinsic value method of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees.

   The following table illustrates the effect on net loss and net loss per share if compensation expense was measured using the fair value recognition provisions of SFAS No. 123.

	Three Months Ended	
	July 2, 2005	July 3, 2004
Net loss as reported	$(282,341)	$(456,515)
Net loss pro forma	$(282,341)	$(456,515)
Diluted loss per share as reported	$ (0.11)	$ (0.18)
Diluted loss per share pro forma	$ (0.11)	$ (0.18)

7. Uncertainties. The accompanying consolidated financial statements have been prepared assuming that the Company will continue to operate as a going concern. As discussed below, the Company has incurred recurring losses and is in default of its debt obligations, which taken as a whole, raise substantial doubt about its ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments

that might result from the outcome of this uncertainty. At July 2, 2005, the Company had a deficiency of working capital of $1,474,640, a net loss of $282,341 for the quarter ended July 2, 2005, and was not in compliance with various debt covenants (see Note 4).The future of the Company as an operating entity will depend on management s plans and ability to (a) maintain or replace existing financing arrangements, (b) obtain financing to meet its cash requirements and (c) operate profitably in the future.

To improve profitability, the Company needs to reduce costs and increase per event sales. One effort to reduce costs in fiscal 2006 is a reduction in the number of Mark V sales demonstration events. Demonstration sales are focused on the most promising locations for the events. The Company is also continuing its prospect generation advertising efforts to increase the number of prospects invited to each sales event.

In April 2005, the Company has implemented a employee salary reduction plan. As part of this plan, fiscal 2006 pre-tax income above $100,000 will be used to return the amount of the reduction. The effect of this plan on the first quarter was to reduce expenses by $40,000.

To improve liquidity, the Company completed a sale of substantially all of its consumer receivables to Citizens Finance Company in April 2005. During fiscal 2006, the Company also plans efforts to increase liquidity through better inventory management.

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Shopsmith manufactures and sells woodworking products. Our core product, the Mark V, is sold directly to consumers through demonstration sales events and indirectly to consumers through distributors (primarily Lowe s where Shopsmith also conducts sales demonstrations) along with smaller amounts through other efforts. Mark V sales demonstrations are performed at state fairs, at home shows, and in shopping malls. Other woodworking products and accessories are sold through mail and internet channels. Shopsmith recognizes revenue for these orders at the time of product shipment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial condition and results of operations for Shopsmith presented in the Consolidated Financial Statements, accompanying notes , and management s discussion and analysis are dependent upon the Company s accounting policies. The selection and application of these accounting policies involve judgments, estimates, and uncertainties that are susceptible to change. The Company s significant accounting policies are discussed in Note 2 of the notes to the Consolidated Financial Statements included in the Company s annual report to shareholders for the year ended April 2, 2005. In management s opinion, the Company s critical accounting policies include the allowance for doubtful accounts, accrued recourse liability and deferred tax valuation allowance.

Allowance For Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Customer accounts are stratified by type of account, original credit rating, and recent payment history. Estimated loss rates are then applied to these groups. Deterioration of our customers ability to make payments could require additions to the allowance.

Accounts repurchased under the recourse provision, discussed below, are carried in trade accounts receivable, net of an allowance for doubtful accounts, while the Company attempts to collect them.

Accrued Recourse Liability

Certain retail installment contracts sold to financial institutions through the fiscal year ended March 31, 2001 included a recourse provision. Under this recourse provision, Shopsmith is obligated to purchase the installment contract if the customer defaults on their obligation to the financial institution. The Company s liability for future recourse obligations has been estimated using factors based on the value and rate of change of the value of the outstanding accounts, the rate and changes in the rate of repurchases required under the recourse provision, as well as estimates of amounts collectable after the accounts are repurchased. If these factors would deteriorate, additional accruals would be necessary and would affect future operating results. The Company adopted Statement of Position 03-03 in April 2005. Purchases of loans under a recourse provision are now recorded at fair value at repurchase date, instead of gross less an allowance for doubtful accounts.

Deferred Tax Valuation Allowance

The Company has recorded a valuation allowance against its net deferred tax assets based on its evaluation of the realizability of the future tax benefits of deferred tax assets. The effect of the allowance is to reduce to zero the carrying value of the potential tax benefit arising from the possibility of offsetting the Company s cumulative operating losses against future taxable income.

Results of Operations

Fiscal 2006 first quarter sales decreased to $2,603,000, or 6.6%, from $2,787,000 during the same period a year ago. The primary reason for the decline was decreased sales through demonstrations within Lowe s stores.

Gross margin rates for the fiscal 2006 first quarter increased by 1.4 percentage points compared to the same period last year. Operating expenses decreased by $260,294 to $1,580,000 in the fiscal 2006 first quarter from $1,840,000 in last year s first quarter. The most significant factors in the decrease in operating expenses were a decrease in the number of Mark V sales demonstration events and lower sales representative training costs.

Provisions for recoverable federal income taxes are based on estimated annual effective rates, less a valuation allowance. No tax benefit or expense is reported for the period ended July 2, 2005, as they were offset by changes in the valuation allowance.

The lower level of sales was more than offset by the reduction in selling expenses. This reduced the Company s net loss to $282,000, or $.11 per diluted share, in the quarter ended July 2, 2005, compared to a net loss of $457,000, or $.18 per diluted share, for the same period of last year.

Liquidity and Financial Position

Cash used in operations totaled $778,000 for the three months ended July 2, 2005, compared with $218,000 used in operations for the same period of the preceding year. During the period, cash was used to decrease accounts payable balances, as well as to fund the period s net loss.

To improve liquidity, the Company sold substantially all of its consumer revolving credit receivables to Citizens Finance Company in April 2005 for $1,139,000. The Company plans to finance ongoing customer purchases through Citizens Finance Company.

As described in Note 4 to the Company s Consolidated Financial Statements, On June 3, 2005, the Company executed a Loan Agreement (the Revolving Credit Agreement) with National City Bank. Under the loan documents, the Company may borrow the lesser of (i) $600,000 or (ii) the sum of 80% of accounts receivable due from Lowe s Companies. Interest on the Revolving Credit Agreement is charged at one and one-half percent over the Bank s prime rate. The maturity date on the agreement is August 15, 2005. All loans under the Revolving Credit Agreement are at the discretion of National City Bank. At July 2, 2005, $250,592 , was outstanding under the Revolving Credit Agreement. This amount also represents the maximum available under the Revolving Credit Agreement at July 2, 2005.

The Revolving Credit Agreement contains the following financial covenants:

2.1 Tangible Net Worth. The Company s Tangible Net Worth shall not at any time be less than the required amount of One Million One Hundred Thirty-five Thousand and 00/100 dollars ($1,135,000.00), tested quarterly.

2.2 Net Income. The Company s Net Income shall not at any time be less than negative Two Hundred Thirty-five Thousand and 00/100 (-$235,000.00), tested quarterly

As of July 2, 2005, the Company was not in compliance with the above two financial covenants, having a tangible net worth of $1,072,151 and a year-to-date net loss of $282,341. The Company has notified the lender of such noncompliance, but now waiver has been obtained. Failure to obtain a waiver could materially affect the Company s financial position, liquidity, and operations.

In connection with the Revolving Credit Agreement, Mr. John R. Folkerth, Chairman and Chief Executive Officer of the Company, delivered to Provident Bank (National City Bank is successor to Provident Bank) a Continuing Unconditional Guaranty pursuant to which Mr. Folkerth guaranteed repayment of $200,000 of the indebtedness then or thereafter owing by the Company to the Bank. In consideration of that Guaranty, the Company has agreed to pay to Mr. Folkerth an annual fee of $3,000 (being 1.5% of the guaranteed amount).

On June 29, 2004, the Company refinanced a mortgage on its office and manufacturing facility, with a mortgage loan from Provident Bank in the amount of $2,000,000 (the New Mortgage Loan). Interest on the New Mortgage Loan is at one-quarter percent over the Bank s prime rate. The loan documents require monthly payment of interest and monthly payments of principal from $8,000 to $10,000. In August 2009, the remaining balance on the note of approximately $1,477,000 will become due.

Under the terms of the New Mortgage Loan, default under the Revolving Credit Agreement can trigger default under the New Mortgage Loan. In the event of default, the Bank may declare the New Mortgage Loan immediately due and payable. As of July 2, 2005, the Company was not in compliance with the financial covenants of the Revolving Credit Agreement. As a result of this covenant violation, the mortgage debt has been classified as a current liability as of July 2, 2005. The Company has requested a forbearance agreement from National City Bank (successor to Provident Bank) concerning the mortgage loan, but no such agreement is yet in place.

The New Mortgage Loan and the revolving credit loans are collateralized by a mortgage on, or security interest in, substantially all assets of the Company.

On August 11, 2005, the Company reached verbal agreement with Greystone Metro Factors regarding a factoring arrangement covering the Company s receivables from Lowe s. The funding from this agreement is planned to replace the funding from the Revolving Credit Agreement with National City Bank which expires August 15, 2005.

The Company has been dependent upon the Revolving Credit Agreement to fund operations during periods of negative cash flow. Termination of the Revolving Credit Agreement, without establishment of a substitute credit facility, would create significant liquidity issues for the Company.

The Company s current ratio was 0.67 to 1 at July 2, 2005 and 0.60 to 1 at April 2, 2005. The debt to equity ratio decreased to 4.11 to 1 at July 2, 2005 from 4.12 to 1 at April 2, 2005. Losses during the three months ended July 2, 2005 have contributed to a tightening of liquidity which in turn has caused the Company to defer payments to vendors beyond the Company s customary payment practice.

The Company believes that profitability is critical to ensuring adequate liquidity in both the current and future fiscal years.

Contractual Obligations

As noted in management s discussion of liquidity and financial position, the mortgage debt, shown here as long-term debt, has been classified as a current obligation on the consolidated balance sheets.

		Scheduled payments due by period			
		Less than			**More than 5**
Contractual Obligations	**Total**	**1 Year**	**1-3 Years**	**3-5 Years**	**Years**
Revolving Line of Credit	$ 250,592	$250,592	$	$	$
Long-Term Debt	1,902,558	101,652	216,708	1,584,198	
Operating Leases	223,378	73,385	120,770	29,223	
Total	$2,376,528	$425,629	$337,478	$1,613,421	$

Forward Looking Statements

The foregoing discussion and the Company s consolidated financial statements contain certain forward-looking statements that involve risks and uncertainties, including but not limited to the following: (i) the operating cash flows together with currently available working capital may be inadequate to finance the operating needs of the Company; (ii) cancellation by Lowe s of the in-store sales program; (iii) the Company may fail to obtain a waiver for its failure to meet the financial covenants contained its Loan Agreement with National City Bank, in which event the Bank may declare all amounts owed by the Company to the Bank under the revolving credit and mortgage loan facilities to be immediately due and payable; (iv) the Company s future results may fail to meet the financial covenants contained in its Loan Agreement with National City Bank; (v) the Bank may decline to make further advances under the revolving credit facility; (vi) the Company may be unable to extend or refinance the revolving credit facility when the revolving credit loans mature on August 15, 2005; and (vii) actual losses related to doubtful accounts and recourse liabilities (discussed under Critical Accounting Policies and Estimates) may exceed current estimates.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

The Company s Chairman and Chief Executive Officer, John R. Folkerth, and the Company s Chief Financial Officer, Mark A. May, have evaluated the Company s disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, Messrs. Folkerth and May have concluded that the Company s disclosure controls and procedures are effective.

(b) Changes in Internal Controls Over Financial Reporting

There were no changes in the Company s internal control over financial reporting that occurred during the first quarter of the Company s fiscal year that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 3. Default Upon Senior Securities

As discussed in the   Liquidity and Financial Position   section of Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 2 of this report, at July 2, 2005, the Company was not in compliance with its financial covenants (relating to net worth and net income) contained in its Revolving Credit Agreement with National City Bank.

Item 6. Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

SHOPSMITH, INC.

By: /s/ Mark A. May

Mark A. May

Vice President of Finance (Principal
Financial
and Accounting Officer)

Date: August 15, 2005

D>

Construction						
Agricultural loans	204	0.09%				
Commercial and industrial	479	0.20%	459	0.19%	5	0.00%
Agricultural production finance	11	0.00%	157	0.07%	584	0.25%
Consumer loans:						
Vehicle	198	0.08%	9	0.00%	10	0.00%
Consumer finance	17	0.01%			8	0.00%
Other	8	0.00%	10	0.00%	8	0.00%
Total loans	$2,538	1.06%	$1,944	0.81%	$868	0.36%

Non-Performing Assets. The following table presents information with respect to the Bank s nonperforming assets at the dates indicated.

	At December 31, 2007	2006	2005	2004	2003
	(In Thousands)				
Non-perfoming loans:					
90 Days Delinquent and Non-accrual loans:					
Real estate loans:					
One-to-four family	$ 253	$ 176	$ 306	$ 202	$ 567
Commercial		546	510		302
Construction				108	113
Agricultural loans			64		
Commercial and industrial	5	223	421		
Agricultural production finance	584	246		19	32
Consumer loans:					
Vehicle	10	78	94	97	89
Consumer finance	8		1	14	15
Other	8	37	23	3	8
Troubled debt restructurings	17	532	94	1,128	1,403
Total non-performing loans	885	1,838	1,513	1,571	2,529
Real estate owned (1)	554	366	267	190	96
Total nonperforming assets (2)	$ 1,439	$ 2,204	$ 1,780	$ 1,761	$ 2,625
Total nonperforming loans as a percentage of total loans	0.37%	0.98%	0.95%	1.31%	2.35%
Total nonperforming assets and troubled debt restructurings as a percentage of total assets	0.44%	0.71%	0.65%	0.76%	1.16%

(1) Real estate owned includes other repossessed assets and the balances are shown net of related valuation allowances.

(2) Nonperforming assets consist of nonperforming

loans, other repossessed assets and real estate owned.

Classified Assets. Federal regulations require that each insured savings institution classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a higher possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated special mention also must be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful, or loss. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset-classified loss, or charge off such amount. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution s regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital. Federal examiners may disagree with an insured institution s classification and amounts reserved.

An alternate method used to determine necessary reserve levels is to evaluate the collateral securing each classified loan to determine if a collateral shortfall exists. If a shortfall is identified, then a specific reserve amount for this amount should be established. Historical loss percentages by loan category are calculated by using a five-year average of actual loss experience, although these percentage amounts may be adjusted to reflect changes such as a change in the composition of the loan portfolio or a change in economic conditions. These defined percentages are applied to the remainder of the institution s loan portfolio.

The Company s total classified loans, which include impaired loans, at December 31, 2007, amounted to $13.9 million, $7.2 million of which was classified as substandard, $76,000 of which was classified doubtful, $40,000 of which was classified loss, and $4.0 million of which was classified as special mention or potential problem loans. Classified loans at December 31, 2006 were $11.8 million, $5.6 million of which was classified substandard, $188,000 of which was classified doubtful, $36,000 of which was classified loss, and $6.0 million of which was classified special mention or potential problem loans. Of the $13.9 million classified assets at December 31, 2007, $868,000 million were nonperforming loans as of December 31, 2007. The remaining $13.0 million relate to potential problem loans due to various circumstances such as prior problem history with the customer or insufficient collateral value.

Specific reserve amounts identified by the collateral shortfall method amounted to $745,000. Included in the classified loans of $13.9 million were nonresidential real estate loans of $6.6 million, agricultural production finance loans totaling $2.1 million, commercial loans of $2.0 million, one-to-four family real estate loans of $1.8 million, farmland loans of $815,000, consumer loans of $390,000, and construction loans of $265,000. Of the $2.1 million in classified agricultural production loans, $1.0 million in agricultural finance loans had guarantees by the Farmers Home Administration in the amount of $912,000. Also included in classified loans were farmland loans of $373,000 which had guarantees by the Farmers Home Administration in the amount of $336,000.

Reserve Policy and Methodology. The Company maintains an allowance for credit losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for credit losses, which is charged against current period operating results and decreased by the amount of chargeoffs, net of recoveries. In calculating the allowance for credit losses, the Company segments the loan portfolio into two groups, loans evaluated individually and loans evaluated collectively. The methodology for assessing the appropriateness of the allowance account consists of a formula allowance for loans evaluated collectively and specific allowances for loans evaluated individually.

The specific allowances are calculated by applying loss factor percentages to outstanding loans included in the classification of assets, based on the classification category of each loan. Changes in risk grades of these loans affect the amount of the specific allowance. Loss factors for the formula allowance are based on our historical loss experience and may be adjusted for significant factors that, in management s judgement, affect the collectibility of the portfolio as of the evaluation date. The adjustments to the historical loss experience are based on an evaluation of national and local economic trends, trends in delinquencies and chargeoffs, trends in volume and terms of loans, changes in underwriting standards, and industry conditions. The specific allowance is then calculated alternatively by looking at each loan specifically and evaluating the collateral securing the loan to determine if a shortfall of collateral exists. A specific allowance under this method includes the shortfall amount. The resulting specific allowance amount calculated under both methods is evaluated by the asset classification committee which includes upper management to determine the amount of needed reserves for the loans which are classified. A general reserve amount is calculated for the remainder of the loan portfolio using percentages calculated from actual historical loss experience. The total reserve amount is then formulated by adding the specific reserve relating to the classified loans, and the general reserve pertaining to the rest of the loan portfolio.

While management believes the allowance for loan losses is sufficient to cover losses inherent in its loan portfolio at this time, no assurances can be given that the level of the allowance for loan losses will be sufficient to cover future loan losses incurred or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance for loan losses. As of December 31, 2007 and 2006, the allowance for loan losses was 0.88% and 1.18%, respectively, of total loans. Management will continue to monitor and modify the allowance for loan losses as conditions dictate.

The following table sets forth information concerning the allocation of the Company s allowance for loan losses by loan categories at the dates indicated.

	December 31,									
	2007		2006		2005		2004		2003	
	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
					(In Thousands)					
Allocated:										
Real estate loans:										
One-to-four family	$ 305	32.80%	$ 260	35.35%	$ 318	32.29%	$ 224	31.15%	$ 154	33.38%
Multi-family	27	5.68%	7	1.81%	2	0.43%	2	0.59%	2	0.24%
Commercial	509	20.87%	609	17.89%	866	20.71%	745	14.02%	349	9.25%
Construction	77	1.75%	5	1.28%	60	1.51%	56	1.26%	60	2.08%
Agricultural loans	114	12.21%	78	14.30%	84	13.03%	52	14.04%	91	12.71%
Commercial and industrial	433	6.05%	417	3.90%	466	4.91%	376	5.32%	351	5.87%
Agricultural production finance	197	8.35%	310	10.02%	330	9.62%	320	11.28%	503	11.29%
Consumer loans:										
Vehicle	312	9.22%	421	11.55%	420	13.27%	414	17.25%	506	19.23%
Consumer finance	25	0.34%	21	0.46%	42	0.54%	36	0.66%	41	0.75%
Share		0.35%		0.54%		0.44%		0.39%		0.49%
Other	82	1.74%	76	2.04%	55	2.20%	56	2.57%	68	2.90%
Other loans	10	0.64%	18	0.86%	19	1.05%	19	1.47%		1.81%
Unallocated:										
	$ 2,091	100.00%	$ 2,222	100.00%	$ 2,662	100.00%	$ 2,300	100.00%	$ 2,125	100.00%

The following table sets forth an analysis of the Company s allowance for loan losses during the periods indicated.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
			(In Thousands)		
Total loans outstanding	$ 236,947	$ 187,666	$ 159,547	$ 119,748	$ 108,535
Average loans outstanding, net	204,515	174,375	131,405	111,445	105,773
Balance at beginning of period	2,222	2,662	2,300	2,125	1,963
Charge-offs:					
Real estate loans:					
One-to-four family	47	74	72	78	118
Multi-family	181				
Commercial	309	137	91	67	
Construction					
Agricultural loans					
Commercial and industrial	144	310		75	35
Agricultural production finance	69	28		14	234
Consumer loans:					
Vehicle	144	139	206	156	214
Consumer finance	61	23	20	34	10
Share					
Other	40	62	50	14	48
Total charge-offs	995	773	439	438	659
Recoveries:					
Real estate loans:					
One-to-four family		11	1	8	
Multi-family					
Commercial			12	1	
Construction					
Agricultural loans			7		
Commercial and industrial				3	5
Agricultural production finance	1		2		11
Consumer loans:					
Vehicle	47	45	48	52	47
Consumer finance	12	15	11	23	23
Share					
Other	29	32	10	11	7
Total recoveries	89	103	91	98	93
Net charge-offs	(906)	(670)	(348)	(340)	(566)
Provision for loan losses	775	230	510	515	728
Acquired through business combination			200		
Balance at end of period	$ 2,091	$ 2,222	$ 2,662	$ 2,300	$ 2,125

Allowance for loan losses as a percent of total loans outstanding	0.88%	1.18%	1.67%	1.92%	1.96%
Allowance for loan losses as a percent of total non-performing loans	236.27%	120.89%	175.94%	146.40%	188.72%
Ratio of net charge-offs to average loans outstanding	0.44%	0.38%	0.26%	0.31%	0.54%

Investment Securities

The Company has authority to invest in various types of securities, including mortgage-backed securities, U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, certificates of deposits at federally-insured banks and savings institutions, certain bankers acceptances and federal funds. The Company s investment strategy is established by the Investment/ALCO Committee which currently consists of directors and senior officers of the Company. The Investment/ALCO Committee meets on a quarterly basis and the strategy established by the committee is implemented by the Company s President and Chief Financial Officer. The Company has obtained the services of an independent consultant to provide data regarding the Bank s investments as well as potential investments. Any material deviations from the investment strategy require approval by the Investment/ALCO Committee.

The following table sets forth information relating to the amortized cost and fair value of the Company s securities all of which are classified available for sale.

	December 31,					
	2007		2006		2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(In Thousands)			
Available for sale:						
U.S. Treasuries	$ 3,873	$ 3,461	$ 3,869	$ 3,456	$ 3,820	$ 3,527
Federal agencies	5,481	5,619	6,967	7,014	8,483	8,375
State and municipal	4,859	4,851	12,351	12,405	13,181	13,252
Mortgage-backed securities	34,021	33,672	40,767	39,957	51,138	50,369
Equity securities	1,026	1,026	1,685	1,683	903	901
Total	$ 49,260	$ 48,629	$ 65,639	$ 64,515	$ 77,525	$ 76,424
Held to maturity:						
Mortgage-backed securities	$ 5,331	$ 5,284	$ 4,780	$ 4,662	$ 3,437	$ 3,384
Total	$ 5,331	$ 5,284	$ 4,780	$ 4,662	$ 3,437	$ 3,384

The following table sets forth the amount of the Company s available-for-sale debt securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at December 31, 2007. The table does not include equity securities as they have no stated maturity. The amounts reflect fair value of the Company s debt securities at December 31, 2007.

Available-for-sale securities	Under 1 Year	Weighted Average Yield	1-5 Years	Weighted Average Yield	5-10 Years	Weighted Average Yield	Over 10 Years	Weighted Average Yield	Total
				(In Thousands)					
U.S. Treasuries	$ 1,142	3.63%	$ 2,319	4.07%	$ 0		$ 0		$ 3,461
Federal agencies	998	3.52%	4,621	5.19%	0		0		5,619
State and municipal	81	4.72%	1,482	4.19%	3,288	2.55%	0		4,851
Mortgage-backed securities (1)	9,871	4.67%	19,911	4.66%	3,001	4.33%	889	3.69%	33,672
Total	$ 12,092		$ 28,333		$ 6,289		$ 889		$ 47,603

(1) The maturities for mortgage-backed securities are based on prepayment speed assumptions established by management based on the current interest rate environment. The assumption rates vary by the individual security.

The mortgage-backed securities include $13.6 million in adjustable rate securities which typically have longer stated final maturities, but will have rate adjustments within the next three years. The fixed rate mortgage-backed securities have relatively short projected remaining lives, generally less than fifteen years.

The following table sets forth the amount of the Company s held-to-maturity debt securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at December 31, 2007. The amounts reflect the amortized cost of the Company s debt securities at December 31, 2007.

Held-to-maturity securities	Under 1 Year	Weighted Average Yield	1-5 Years	Weighted Average Yield	5-10 Years	Weighted Average Yield	Over 10 Years	Weighted Average Yield	Total
				(In Thousands)					
Mortgage-backed securities (1)	$ 1,127	5.10%	$ 3,826	4.97%	$ 378	4.50%	$		$ 5,331
Total	$ 1,127		$ 3,826		$ 378		$		$ 5,331

(1) The maturities for mortgage-backed securities are based on prepayment speed assumptions established by management based on the current interest rate environment. The assumption rates vary by the individual security.

Mortgage-backed securities represent a participation interest in a pool of one-to-four family or multi-family mortgages. The mortgage originators use intermediaries (generally U.S. Government agencies and government-sponsored enterprises) to pool and repackage the participation interests in the form of securities, with investors receiving the principal and interest payments on the mortgages. Such U.S. Government agencies and government-sponsored enterprises guarantee the payment of principal and interest to investors.

Mortgage-backed securities are typically issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that are within a range and have varying maturities. The underlying pool of mortgages, i.e., fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder.

The life of a mortgage-backed pass-through security approximates the life of the underlying mortgages. However, prepayment of principal allows the Company to re-invest at current rates. This is beneficial in a rising interest rate environment. During 2007, proceeds generated from repayments and maturities of available-for-sale and held-to-maturity securities totaled $19.0 million compared to $18.7 million in 2006. Of the $19.0 million, repayments on mortgage-backed securities amounted to $8.5 million. Net amortization of premiums and discounts on securities increased to $71,000 in 2007 compared to $49,000 in 2006.

Mortgage-backed securities generally yield less than the loans which underlie such securities because of their payment guarantees or credit enhancements which offer nominal credit risk. However, these securities generally yield more than other debt instruments available from U.S. Government Agencies. In addition, mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company.

The Company s investment in mortgage-backed securities resulted in higher yields than were generally available from other securities of comparable credit risk. At the same time yields were only marginally less than those generally available on comparable real estate mortgages, without the inherent credit risk.

Sources of Funds

General. Deposits are the primary source of the Company s funds for lending and other investment purposes. In addition to deposits, principal and interest payments on loans and mortgage-backed securities are a source of funds. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may also be used on a short-term basis to compensate for reductions in the availability of funds and other sources and on a longer-term basis for general business purposes. For a discussion of commitments and credit risk, see note 26 to the consolidated financial statements.

Deposits. Deposits are attracted by the Company principally from within its primary market area. Deposit account terms vary, with the principal differences being the minimum balance required, the time periods the funds must remain on deposit and the interest rate.

The Company obtains deposits primarily from residents in Illinois and Indiana. The Company seeks to attract deposit accounts by offering a variety of products with competitive rates and terms.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Management determines the rates and terms based on rates paid by competitors, the need for funds or liquidity, growth goals and federal and state regulations. The Company attempts to control the flow of deposits by pricing its accounts to remain generally competitive with other financial institutions in its market area.

The following table shows the distribution of and certain other information relating to the Company s average deposits for the years 2007, 2006 and 2005 by the type of deposits indicated.

	December 31, 2007			December 31, 2006			December 31, 2005		
		Percent			Percent			Percent	
		of Total	Weighted		of Total	Weighted		of Total	Weighted
	Average	Average	Average	Average	Average	Average	Average	Average	Average
	Balance	Deposits	Rate	Balance	Deposits	Rate	Balance	Deposits	Rate
					(In Thousands)				
Money market deposits	$ 20,127	9.01%	3.48%	$ 21,164	10.05%	2.62%	$ 15,841	9.41%	1.99%
Savings deposits	14,738	6.60%	2.06%	12,449	5.91%	0.83%	12,225	7.26%	0.85%
NOW and other demand deposits	28,935	12.96%	1.76%	27,219	12.93%	1.02%	36,990	21.97%	1.05%
Non-interest bearing deposits	20,390	9.13%	0.00%	21,423	10.18%	0.00%	17,357	10.31%	0.00%
Total	84,190	37.70%	1.80%	82,255	39.07%	1.14%	82,413	48.95%	0.98%
Certificate accounts									
Three months or less	1,218	0.55%	3.91%	3,515	1.67%	4.50%	356	0.21%	1.45%
Over three through six months	19,196	8.60%	4.92%	25,341	12.04%	4.91%	3,926	2.33%	2.73%
Over six through twelve months	68,289	30.57%	4.83%	43,298	20.56%	4.19%	29,696	17.64%	2.69%
Over one to three years	20,587	9.22%	4.18%	27,576	13.10%	3.56%	26,698	15.86%	2.59%
Over three to five years	16,866	7.55%	4.43%	15,861	7.53%	4.18%	12,828	7.62%	4.33%
Over five years	12,985	5.81%	4.45%	12,690	6.03%	4.42%	12,435	7.39%	4.35%
Total certificates	139,141	62.30%	4.65%	128,281	60.93%	4.23%	85,939	51.05%	3.14%
Total average deposits	$ 223,331	100.00%	3.58%	$ 210,536	100.00%	3.02%	$ 168,352	100.00%	2.08%

The following table shows the interest rate and maturity information for the Company s certificates of deposits at December 31, 2007.

Interest Rate	One Year or Less	Over 1-2 Years	Maturity Date Over 2-3 Years (In Thousands)	Over 3 Years	Total
2.00% - 3.99%	$ 18,733	$ 3,859	$ 2,675	$ 491	$ 25,758
4.00% - 5.99%	94,834	13,689	6,253	5,760	120,536
	$ 113,567	$ 17,548	$ 8,928	$ 6,251	$ 146,294

As of December 31, 2007, the aggregate amount of outstanding time certificates of deposit at the Company in amounts greater than or equal to $100,000, was approximately $46.9 million. This amount included for Depository Trust Company (DTC) brokered certificates totaling $15.0 million, of which $5.0 million mature in the second quarter of 2008, $5.0 million in the third quarter of 2008, and $5.0 million mature in June 2010. The $5.0 million DTC certificate maturing in June 2010 has a quarterly call feature, which is being exercised in March, 2008. The following table presents the maturity of these time certificates of deposits at December 31, 2007.

	December 31, 2007 (In Thousands)
3 months or less	$ 8,564
Over 3 months through 6 months	10,081
Over 6 months thruogh 12 months	16,026
Over 12 months	12,207
Total	$ 46,878

Return on Equity and Assets

	2007	2006	2005	2004	2003
Return on assets (net income divided by average total assets)	0.35%	0.40%	0.52%	0.54%	0.90%
Return on equity (net income divided by average equity)	4.00%	4.26%	4.66%	4.58%	7.38%
Dividend payout ratio (total dividends paid divided by net income	48.98%	48.62%	46.64%	46.82%	23.05%
Equity to assets ratio (average equity divided by average total assets)	8.77%	9.27%	11.08%	11.84%	12.19%

Borrowings. The Company may obtain advances from the Federal Home Loan Bank (FHLB) of Chicago upon the security of the common stock it owns in that bank and certain of its residential mortgage loans and mortgage-backed and other investment securities, provided certain standards related to creditworthiness have been met. These advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities. FHLB advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending.

At December 31, 2007, the Company had $55.8 million of FHLB advances secured by first mortgage loans, FHLB stock, and investment securities. Some of the advances are rate-locked for a determined time period, between six months and five years, and then are convertible quarterly thereafter by the Federal Home Bank to a quarterly adjustable rate advance. Of the $47.8 million in fixed term advances, $15.0 million are within the lock-out periods of six months or one year, and $25.5 million has passed the rate-lock period, but are currently fixed rate advances. The remaining $7.3 million advances are fixed term advances. The Company also has access to an open-end, variable rate line of credit with the FHLB, which had an $8.0 million balance at December 31, 2007. The open-end line of credit is subject to daily interest rate adjustments, and generally is used for short-term funding needs.

The following schedule presents FHLB advances at December 31, 2007 by maturity date:

	Interest	Fixed or	Maturity	First Convertible	Amount
Date of Advance	Rate	Variable	Date	Date	(in thousands)
February, 1998	5.32%	Fixed	February, 2008	February, 2003	$ 1,500
February, 2001	4.86%	Fixed	February, 2011	February, 2004	10,000
March, 2003	3.35%	Fixed	March, 2008		2,000
October, 2003	3.61%	Fixed	October, 2008		300
September, 2001	3.12%	Fixed	September, 2011		5,000
September, 2006	4.12%	Fixed	September, 2016	September, 2007	14,000
March, 2007	4.13%	Fixed	March, 2017	March, 2008	5,000
April, 2007	4.29%	Fixed	April, 2017	April, 2008	5,000
July, 2007	4.75%	Fixed	July, 2012	January, 2008	5,000
Open line of credit	3.96%	Variable			8,000
					$ 55,800

The Company also occasionally purchases federal funds to fund short-term cash requirements, and at December 31, federal funds purchased totaled $2.7 million. Federal funds reprice daily, and typically are short-term in nature. A $2.0 million one-year line of credit was established by the Company in March 2007 with LaSalle Bank NA which is secured by First Bank & Trust stock owned by the holding company. The balance of the line of credit at December 31, 2007 was $1.0 million. The interest rate, currently 6.86%, adjusts quarterly, and is based on the 90 day LIBOR rate plus 175 basis points.

Capital securities of $6.0 million were issued June 15, 2005, by a statutory business trust, FBTC Statutory Trust I. The Company owns 100% of the common equity of the trust, which is a wholly-owned subsidiary of the Company. The $6.0 million in proceeds from the trust preferred issuance and an additional $186,000 for the Company s investment in the common equity of the Trust, a total of $6,186,000, was invested in the junior subordinated debentures of the Company. As required by FIN 46R, the Company has not consolidated the investment in the Trust. The trust was formed with the purpose of issuing trust preferred securities and investing the proceeds from the sale of such trust preferred securities in the debentures. The debentures held by the trust are the sole assets of the trust. Distributions of the trust preferred securities are payable at a variable rate of interest, which is equal to the interest rate being earned by the trust on the debentures, and are recorded as interest expense by the Company. The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures.

The debentures are included as Tier I capital for regulatory capital purposes. The debentures issued are first redeemable, in whole or part, by the Company on June 15, 2010, and mature on June 15, 2035. The funds were used for the acquisition of the common stock of Rantoul First Bank and for the repurchase of First BancTrust Corporation common stock. Interest is fixed at a rate of 5.80% for a period of five years, and then converts to a floating rate. Interest payments are made quarterly beginning in September, 2005.

Market Area

The Company is headquartered in Paris, Illinois, with regular branches in Marshall and Martinsville in Clark County, and Savoy and Rantoul in Champaign County, Illinois. The Company s primary retail market area encompasses all of adjoining Clark and Edgar Counties, where the home office the Marshall and Martinsville offices, and the Community Finance Center are located, as well as Champaign County where the branches of Savoy and Rantoul are located, and Vermilion County which is adjacent to both Edgar and Champaign Counties. In August, 2004, the Company relocated the Savoy operation to a permanent facility in a retail area in Savoy. In October, expansion into Rantoul was accomplished with the acquisition of the Rantoul First Bank. In December, 2006, an additional Rantoul location was added as a block of deposits were acquired from another local financial institution. In late 2007, the Company received permission from its regulators to close the second Rantoul location at the end of January, 2008. All Rantoul area accounts will be serviced by the original Rantoul location. The Company s primary market area represents its source for deposit gathering and loan originating, however, the Company also originates loans to borrowers outside of the market area. Clark and Edgar Counties are located in east central Illinois, just west of Terre Haute, Indiana, and are both rural counties where agriculture is responsible for a much higher share of employment than in Illinois, as a whole. Champaign County is located in central Illinois and includes the urban markets of Champaign and Urbana, as well as the University of Illinois, which is the area s largest employer. The workforce in this area is primarily employed in professional, managerial, and sales positions. Vermilion County is located immediately north of Edgar County, and to the east of Champaign County.

Both Clark and Edgar Counties have similar economic characteristics with population levels of less than 20,000 in each county in 1990 and 2000. Overall, the demographic characteristics of Clark and Edgar Counties are weaker than Illinois or the U.S. with regard to income levels, housing values and growth trends. In contrast, the Savoy area in southern Champaign County has experienced an above-average population growth, with strong new-housing construction, and above-average home values. Rantoul is located 15 miles north of Champaign-Urbana in the northern portion of Champaign County, and while the immediate local economy has not experienced significant economic growth, Rantoul is affected by the economy of Champaign-Urbana. The estimated median household income for Rantoul in the year 2005 is $38,200 compared to the estimated median income of Savoy of $50,200 for the year 2005. The median house value for Rantoul for the year 2005 is $99,900 compared to the median house value for Savoy for the year 2005 of $198,000. Vermilion County has a median household income of $34,664 and a median house value of $65,900 for the year 2005. The workforce in this county is primarily employed in manufacturing and education, health and social services positions.

Competition

The Company faces significant competition in attracting deposits and making loans. Its most direct competition for deposits has come historically from commercial banks, credit unions, and other savings institutions located in its primary market area, including many large financial institutions which have greater financial and marketing resources available to them. In addition, the Company faces significant competition for investors funds from short-term money market securities, mutual funds and other corporate and government securities. The Company does not rely upon any individual group or entity for a material portion of its deposits. The ability of the Company to attract and retain deposits depends on its ability to generally provide a rate of return, liquidity and risk comparable to that offered by competing investment opportunities.

The Company s competition for real estate loans comes principally from mortgage banking companies, commercial banks, other savings institutions and credit unions. The Company s competition in the agricultural market also includes Farm Credit Services as well as agricultural equipment and product suppliers. The Company competes for loan originations primarily through the interest rates and loan fees it charges, and the efficiency and quality of services it provides borrowers. Factors which affect competition include general and local economic conditions, current interest rate levels and volatility in the mortgage markets. Competition may increase as a result of the continuing reduction of restrictions on the interstate operations of financial institutions and the anticipated slowing of refinancing activity.

Personnel

As of December 31, 2007, the Company, including the Bank and the Company s subsidiary, ECS Service Corporation, doing business as Edgar County Title, had 86 full-time and 25 part-time employees. None of the employees are represented by a collective bargaining agent, and the Company believes that it enjoys good relations with its personnel.

Subsidiaries

At December 31, 2007, the Company had three subsidiaries, the Bank, ECS Service Corporation, and First Charter Service Corporation. While the Bank s subsidiary, Community Finance Center, Incorporated was dissolved as a corporation in May, 2005, Community Finance continues to provide retail consumer loans as a division of the bank. In 2005, the Company also formed FBTC Statutory Trust I (Trust), which is an unconsolidated wholly owned subsidiary formed to issue cumulative preferred securities. The Company owns all of the securities of the Trust that possess general voting powers. The Company also acquired the subsidiary, Rantoul First Financial, as a part of the acquisition of Rantoul First Bank in October, 2005. Rantoul First Financial provided investment and brokerage services to Rantoul First Bank, and was dissolved in early 2006.

ECS Service Corporation, doing business as Edgar County Title Company, is an Illinois chartered corporation which provides real estate abstracting and title insurance services for Edgar and Clark Counties, Illinois primarily to the Company s customers. ECS Service Corporation generated net income of approximately $72,000 and $49,000 for the years ended December 31, 2007 and December 31, 2006, respectively.

First Charter Service Corporation is an Illinois chartered corporation which formerly provided retail sales of uninsured investment products to the Company s customers. Investment and brokerage services are now provided by First Advisors Financial Group, and First Charter is currently in an inactive status. First Charter generated a net income of $409 and $582 for the years ended December 31, 2007 and 2006, respectively.

Regulation

The following discussion of certain laws and regulations which are applicable to the Company and the Bank as well as descriptions of laws and regulations contained elsewhere herein, summarizes the aspects of such laws and regulations which are deemed to be material to the Company and the Bank. However, the summary does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

First BancTrust Corporation

General. The Company is a bank holding company and a financial holding company, and as such, is registered with the Federal Reserve Board. Under the Bank Holding Company Act, the Company is subject to periodic examination by the Federal Reserve Board and is required to file periodic reports of its operations and such additional information as the Federal Reserve Board may require. Because First Bank is chartered under Illinois law, the Company is also subject to regulation by the Division of Banking of the Illinois Department of Financial and Professional Regulation under the Illinois Savings Bank Act.

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A bank holding company is a legal entity separate and distinct from its subsidiary bank or other banks. Normally, the major source of a holding company s revenue is dividends it receives from its subsidiary banks. The right of a bank holding company to participate as a stockholder in any distribution of assets of its subsidiary banks upon their liquidation or reorganization or otherwise is subject to the prior claims of creditors of such subsidiary banks. The subsidiary banks are subject to claims by creditors for long-term and short-term debt obligations, including obligations for Federal funds purchased and securities sold under repurchase agreements, as well as deposit liabilities. Under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, in the event of a loss suffered by the FDIC in connection with a banking subsidiary of a bank holding company (whether due to a default or the provision of FDIC assistance), other banking subsidiaries of the holding company could be assessed for such loss.

Sarbanes-Oxley Act of 2002. In 2002, the President signed into law the Sarbanes-Oxley Act of 2002 implementing legislative reforms intended to address corporate and accounting fraud. In addition to the establishment of a new accounting oversight board which will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, the Act restricts provision of both auditing and consulting services by accounting firms. To ensure auditor independence, any non-audit services being provided to an audit client will require preapproval by the company s audit committee members. In addition, the audit partners must be rotated. The Act requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willfully violate this certification requirement. In addition, under the Act, counsel will be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Longer prison terms will also be applied to corporate executives who violate Federal securities laws, the period during which certain types of suits can be brought against a company or its officers has been extended, and bonuses issued to top executives prior to restatement of a company s financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from trading during retirement plan blackout periods, and loans to company executives are restricted. In addition, a provision directs that civil penalties levied by the SEC as a result of any judicial or administrative action under the Act be deposited to a fund for the benefit of harmed investors. The Federal Accounts for Investor Restitution (FAIR) provision also requires the SEC to develop methods of improving collection rates. The legislation accelerates the time frame for disclosures by public companies as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in a company s securities within two business days of the change.

The Act also increases the oversight of, and codifies certain requirements relating to audit committees of public companies and how they interact with the company s registered public accounting firm (RPAF). Audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies must disclose whether at least one member of the committee is a financial expert (as such term will be defined by the SEC) and if not, why not. Under the Act, a RPAF is prohibited from performing statutorily mandated audit services for a company if such company s chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions has been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. The Act also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company s financial statements for the purpose of rendering the financial statement s materially misleading. The Act also requires the SEC to prescribe rules requiring inclusion of an internal control report and assessment by management in the annual report to shareholders. The Act requires the RPAF that issues the audit report to attest to and report on management s assessment of the company s internal controls. In addition, the Act requires that each financial report required to be prepared in accordance with (or reconciled to) generally accepted accounting principles and filed with the SEC reflect all material correcting adjustments that are identified by a RPAF in accordance with generally accepted accounting principles and the rules and regulations of the SEC.

Acquisitions. The Bank Holding Company Act requires a bank holding company to obtain the prior approval of the Federal Reserve Board before acquiring ownership or control of more than 5% of the voting shares or all or substantially all of the assets of any bank or merging or consolidating with any other bank holding company. The Bank Holding Company Act also prohibits a bank holding company, with certain exceptions, from acquiring more than 5% of the voting share of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. A bank holding company that becomes a financial holding company, such as the Company, is permitted to engage in activities that are financial in nature or incidental to such financial activities. Effective March 11, 2000, the Gramm-Leach-Bliley Act permitted bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act by filing a declaration with the Federal Reserve Board that the bank holding company seeks to become a financial holding company. No regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

The Gramm-Leach-Bliley Act, enacted in 1999, defines financial in nature to include securities underwriting, dealing and market making; providing financial or investment advice; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. Subsidiary banks of a financial holding company must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial in nature subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has a Community Reinvestment Act rating of satisfactory or better.

The Company became a financial holding company under the Bank Holding Company Act effective March 16, 2002, and the Company owns subsidiaries engaged in real estate title and securities brokerage activities.

Source of Strength Policy. According to Federal Reserve Board policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support.

Capital Requirements. In 2006, the Federal Reserve Board approved a final rule that expanded the definition of a small bank holding company under the Board s Small Bank Holding Company Policy Statement, which, among other things, exempts certain bank holding companies from the capital requirements on a consolidated and bank holding company only basis. The exemption applies only to bank holding companies with less than $500 million in consolidated assets that: (i) are not engaged in significant nonbanking activities either directly or through a nonbank subsidiary; (ii) do not conduct significant off-balance sheet activities (including securitization and asset management or administration) either directly or through a nonbank subsidiary; and (iii) do not have a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the SEC. The Company currently qualifies for this exemption and, thus, is required to meet applicable capital standards on a bank-only basis.

Restrictions on Transactions With Affiliates. Transactions between a savings bank and its affiliates are subject to quantitative and qualitative restrictions under Sections 23A and 23B of the Federal Reserve Act and FDIC regulations. Affiliates of a savings bank include, among other entities, the savings bank s holding company and companies that are controlled by a company that controls the savings bank or under common control with the savings bank.

In general, the extent to which a savings bank or its subsidiaries may engage in certain covered transactions with affiliates is limited to an amount equal to 10% of the institution s capital and surplus, in the case of covered transactions with any one affiliate, and to an amount equal to 20% of such capital and surplus, in the case of covered transactions with all affiliates. In addition, a savings bank and its subsidiaries may engage in covered transactions and certain other transactions with affiliates only on terms and under circumstances that are substantially the same, or at least as favorable to the savings bank or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A covered transaction is defined to include a loan or extension of credit to an affiliate; a purchase of investment securities issued by an affiliate; a purchase of assets from an affiliate, with certain exceptions; the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, Sections 22(h) and (g) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% stockholder of a bank, and certain related interests of such person generally may not exceed 15% of the bank s unimpaired capital and surplus for loans that are not fully secured and an additional 10% of the bank s unimpaired capital and surplus for loans fully secured by readily marketable collateral. Section 22(h) also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons and requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a bank to all insiders cannot exceed the institution s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Taxation. The Company is subject to those rules of federal income taxation generally applicable to corporations under the Internal Revenue Code. The Company and its subsidiaries, as members of an affiliated group of corporations within the meaning of Section 1504 of the Internal Revenue Code, file a consolidated federal income tax return, which has the effect of eliminating or deferring the tax consequences of inter-company distributions, including dividends, in the computation of consolidated taxable income.

The Company also is subject to various forms of state taxation under the laws of Illinois as a result of the business which it conducts in Illinois.

First Bank & Trust

General. First Bank is an Illinois-chartered savings bank, the deposit accounts of which are insured by a deposit insurance fund administered the FDIC. As an FDIC insured, Illinois-chartered savings bank, the Bank is subject to examination, supervision, reporting and enforcement requirements of the Division of Banking of the Illinois Department of Financial and Professional Regulation, as the chartering authority for Illinois savings banks, and the FDIC, as administrator of the deposit insurance fund, and to the statutes and regulations administered by the Illinois Division of Banking and the FDIC governing such matters as capital standards, mergers, establishment of branch offices, subsidiary investments and activities and general investment authority. The Bank is required to file reports with the Illinois Division of Banking and the FDIC concerning its activities and financial condition and will be required to obtain regulatory approvals prior to entering into certain transactions, including mergers with, or acquisitions of, other financial institutions.

The Illinois Division of Banking and the FDIC have extensive enforcement authority over Illinois-chartered savings banks, such as First Bank. This enforcement authority includes, among other things, the ability to issue cease-and-desist or removal orders, to assess civil money penalties and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe and unsound practices.

The Illinois Division of Banking has established a schedule for the assessment of supervisory fees upon all Illinois savings banks to fund the operations of the Illinois Division of Banking. These supervisory fees are computed on the basis of each savings bank s total assets (including consolidated subsidiaries) and are payable at the end of each calendar quarter. A schedule of fees has also been established for certain filings made by Illinois savings banks with the Illinois Division of Banking. The Illinois Division of Banking also assesses fees for examinations conducted by the Illinois Division of Banking s staff, based upon the number of hours spent by the staff performing the examination. During the year ended December 31, 2007, First Bank paid approximately $50,000 in supervisory fees, and $31,000 in examination fees.

Insurance of Accounts. The deposits of the Bank are insured to the maximum extent permitted by a deposit insurance fund which is administered by the FDIC.

Following the adoption of the Federal Deposit Insurance Reform Act of 2005, the FDIC has the opportunity, through its rulemaking authority, to better price deposit insurance for risk than was previously authorized. The FDIC adopted regulations effective January 1, 2007 that create a new system of risk-based assessments. Under the regulations there are four risk categories, and each insured institution will be assigned to a risk category based on capital levels and supervisory ratings. Well-capitalized institutions with CAMELS composite ratings of 1 or 2 will be placed in Risk Category I while other institutions will be placed in Risk Categories II, III or IV depending on their capital levels and CAMELS composite ratings. The current assessment rates established by the FDIC provide that the highest rated institutions, those in Risk Category I, will pay premiums of between .05% and .07% of deposits and the lowest rated institutions, those in Risk Category IV, will pay premiums of .43% of deposits. The assessment rates may be changed by the FDIC as necessary to maintain the insurance fund at the reserve ratio designated by the FDIC, which currently is 1.25% of insured deposits. The FDIC may set the reserve ratio annually at between 1.15% and 1.50% of insured deposits. Deposit insurance assessments are collected for a quarter at the end of the next quarter. Assessments are based on deposit balances at the end of the quarter, except for institutions with $1 billion or more in assets and any institution that becomes insured on or after January 1, 2007 which will have their assessment base determined using average daily balances of insured deposits. The Bank s assessments for 2007 under the new fee structure totaled $101,800, which were offset by the carryover one-time assessment credit. The carryover one-time assessment at December 31, 2007 available to offset future premiums totaled $94,000.

In addition, the FDIC will be required to pay dividends awarded on an historical basis to insured depository institutions whenever the reserve ratio exceeds 1.35 percent, although dividends may be suspended or limited if the FDIC determines there is a significant risk to the deposit insurance fund. Insured depository institutions also will receive a one-time credit which can be applied against the payment of future premiums.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980 s by the Financing Corporation (FICO) to recapitalize the predecessor to the Savings Association Insurance Fund. During 2007, FICO payments approximated 1.16 basis points per dollar of insured deposits and the premium paid by the Bank for FICO payments for this period was $26,200.

The FDIC may terminate the deposit insurance of any insured depositary institution, including First Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in termination of First Bank s deposit insurance.

Capital Requirements. The Bank is subject to various regulatory capital requirements administered by the FDIC. FDIC regulations establish a minimum 3.0% Tier I leverage capital requirement for the most highly-rated state-chartered, non-member banks, with an additional cushion of at least 100 to 200 basis points for all other state-chartered, non-member banks, which effectively increases the minimum Tier I leverage ratio for such other banks to 4.0% to 5.0% or more. Under FDIC regulations, the highest-rated banks are those that the FDIC determines are not anticipating or experiencing significant growth and have well diversified risk, including no undue interest risk exposure, excellent asset quality, high liquidity, good earnings and, in general, which are considered a strong banking organization, rated composite 1 under the Uniform Financial Institutions Rating System. Tier I or core capital is defined as the sum of common stockholders equity (including retained earnings), noncumulative perpetual preferred stock, and related surplus, and minority interests in consolidated subsidiaries, minus all intangible assets other than certain qualifying supervisory goodwill, and certain purchased mortgage servicing rights and purchased credit and relationships.

FDIC regulations also require that savings banks meet a risk-based capital standard. The risk-based capital standard for savings banks requires the maintenance of total capital, which is defined as Tier I capital and supplementary (Tier 2 capital), to risk weighted assets of 8% of which at least 4% must be Tier I capital. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet assets, are multiplied by a risk-weight of 0% to 100%, based on the risks the federal regulators believe are inherent in the type of asset.

Refer to Bank capital amounts and ratios in Note 15 of the consolidated financial statements for the Bank s capital ratios.

Dividends. The Bank is subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. The FDIC or the Illinois Division of Banking is authorized to determine under certain circumstances relating to the financial condition of the Bank or the Company that the payment of dividends would be an unsafe or unsound practice and to prohibit payment thereof. Restrictions on the payment of dividends by the Bank are more fully described below.

Under the Illinois Savings Bank Act, no dividends may be declared when total capital of a savings bank is less than that required by Illinois law. Dividends may be paid by a savings bank out of its net profits. Written approval of the Illinois Division of Banking is required if a savings bank has total capital of less than 6% of total assets and the dividend to be declared in any year exceeds 50% of the savings bank s net profits for the year. The approval of the Director of the Illinois Division of Banking also is required before dividends may be declared that exceed a savings bank s net profits in any year. In 2007, First Bank declared and paid dividends to the Company of $1.1 million.

Safety and Soundness Guidelines. The FDIC and the other federal banking agencies have established guidelines for safety and soundness, addressing operational and managerial standards, as well as compensation matters for insured financial institutions. Institutions failing to meet these standards are required to submit compliance plans to their appropriate federal regulators. The FDIC and the other agencies have also established guidelines regarding asset quality and earnings standards for insured institutions. The Bank believes that it is in compliance with these guidelines and standards.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank of Chicago, which is one of 12 regional Federal Home Loan Banks that administers the home financing credit function of savings institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e. advances) in accordance with policies and procedures established by the Board of Directors of the Federal Home Loan Bank. At December 31, 2007, the Bank had $55.8 million of Federal Home Loan Bank advances. See Note 11 to Financial Statements.

As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of Chicago in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans or similar obligations at the beginning of each year. In addition, all borrowings from the Chicago Federal Home Loan Bank must be supported by capital stock holdings not less than 5% of borrowings. At December 31, 2007, the Bank had $3.7 million in Federal Home Loan Bank stock, which was in compliance with these requirements.

The Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of Federal Home Loan Bank dividends in the past and could do so in the future. These contributions also could have an adverse effect on the value of Federal Home Loan Bank stock in the future. The average dividend yield on the Bank s stock was 3.35% in 2007 and 2.32% in 2006. During the third quarter of 2007, the Federal Home Loan Bank of Chicago received a Cease and Desist Order from their regulator, the Federal Housing Finance Board. The draft order prohibits capital stock repurchases and redemptions until a time to be determined by the Federal Housing Finance Board. Federal Home Loan Bank of Chicago will assess their dividend capacity each quarter, and will obtain necessary approval if a dividend is made.

Community Investment and Consumer Protection Laws. In connection with its lending activities, First Bank is subject to a variety of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. Included among these are the federal Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act and Community Reinvestment Act.

The Community Reinvestment Act requires insured institutions to define the communities that they serve, identify the credit needs of those communities and adopt and implement a Community Reinvestment Act Statement pursuant to which they offer credit products and take other actions that respond to the credit needs of the community. The responsible federal banking regulator must conduct regular Community Reinvestment Act examinations of insured financial institutions and assign to them a Community Reinvestment Act rating of outstanding, satisfactory, needs improvement or unsatisfactory. In 2006, the Community Reinvestment Act rating of the Bank was satisfactory.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. During 2007, no reserves were required to be maintained on the first $8.5 million of net transaction accounts, and reserves of 3% were required to be maintained on net transaction accounts in excess of $8.5 million up to and including $45.8 million. First Bank applied for and received permission from the Federal Reserve to employ a deposit reclassification process whereby a portion of First Bank s transaction accounts can be classified as savings deposits, which are not subject to Reserve Requirements. As a result of this reclassification, at December 31, 2007 no reserves were required to be maintained by the Federal Reserve Board, as the reportable amount fell under the exempt threshold. The above dollar amounts and percentages are subject to periodic adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or a noninterest-bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce an institution s earning assets and constrain its ability to lend.

Recent Accounting Pronouncements.

In September 2006, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) No. 06-4, *Postretirement Benefits Associated with Split-Dollar Life Insurance* (EITF 06-4). EITF 06-4 requires deferred-compensation or postretirement benefit aspects of an endorsement-type split-dollar life insurance arrangement to be recognized as a liability by the employer. The liability for future benefits should be recognized based on the substantive agreement with the employee, which may be either to provide a future death benefit or to pay for the future cost of the life insurance. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company evaluated the impact of the adoption of EITF 06-4 on its financial condition, results of operations, and cash flows, and determined it will have no impact.

In September 2006, the FASB issued SFAS No. 157 (FAS 157), *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. FAS 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosure requirements about fair value measurements. FAS 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has evaluated the impact of the adoption of FAS 157 and determined it will not make on its financial reporting and disclosures.

In February 2007, the FASB issued SFAS No. 159 (FAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. FAS 159 allows companies to report selected financial assets and liabilities at fair value. The changes in fair value are recognized in earnings and the assets and liabilities measured under this methodology are required to be displayed separately in the balance sheet. The main intent of the Statement is to mitigate the difficulty in determining the reported earnings caused by a mixed-attribute model (or reporting some assets are fair value and others using a different valuation attribute such as amortized cost). The project is separated into two phases. This first phase addressed the creation of a fair value option for financial assets and liabilities. A second phase will address creating a fair value option for selected non-financial items. FAS 159 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. The Company evaluated the impact on the adoption of FAS 159, and determined it will not have a material impact on its financial reporting and disclosures.

In December 2007, the FASB issued SFAS No. 141R (FAS 141R), *Business Combinations*, which revises FAS 141 and changes multiple aspects of the accounting for business combinations. Under the guidance in FAS 141R, the acquisition method must be used, which requires the acquirer to recognize most identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree at their full fair value on the acquisition date. Goodwill is to be recognized as the excess of the consideration transferred plus the fair value of the non-controlling interest over the fair values of the identifiable net assets acquired. Subsequent changes in the fair value of contingent consideration classified as a liability are to be recognized in earnings, while contingent consideration classified as equity is not to be re-measured. Costs such as transaction costs are to be excluded from acquisition accounting, generally leading to recognizing expense, and, additionally, restructuring costs that do not meet certain criteria at acquisition date are to be subsequently recognized as post-acquisition costs. FAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact that this issuance will have on its financial position and results of operation; however, it anticipates that the standard will lead to more volatility in the results of operations during the periods subsequent to an acquisition.

In December 2007, the FASB issued SFAS No. 160 (FAS 160), *Non-controlling Interest in Consolidated Financial Statements an Amendment of ARB No. 151*. FAS 160 requires that a non-controlling interest in a subsidiary (i.e. minority interest) be reported in the equity section of the balance sheet instead of being reported as a liability or in the mezzanine section between debt and equity. It also requires that the consolidated income statement include consolidated net income attributable to both the parent and non-controlling interest of a consolidated subsidiary. A disclosure must be made on the face of the consolidated income statement of the net income attributable to the parent and to the non-controlling interest. Also, regardless of whether the parent purchases additional ownership interest, sells a portion of its ownership interest in a subsidiary or the subsidiary participates in a transaction that changes the parent s ownership interest, as long as the parent retains controlling interest, the transaction is considered an equity transaction. FAS 160 is effective for annual periods beginning after December 15, 2008. The Company is currently evaluating the impact, if any, that this standard will have on its financial position and results of operations.

Item 1A. Risk Factors

Information relating to Risk Factors is included in the Registrant s 2007 Annual Report to Stockholders attached hereto as Exhibit 13 (2007 Annual Report to Stockholders) on pages 38 through 43 under the caption Risk Factors , and is incorporated herein by reference.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table sets forth information relating to the Bank s offices at December 31, 2007.

			Net Book Value of Property and Leasehold	
	Owned or	Lease Expiration	Improvements at December 31,	Deposits as of December 31,
Location	Leased	Date	2007	2007
101 South Central Avenue Paris Illinois 61944	Owned		$ 6,398	$ 102,710
610 North Michigan Avenue Marshall, Illinois 62441	Owned		556	55,671
1251 Woodfield Drive Savoy, Illinois 61874	Leased	8/31/2009	140	29,738
1500 East Grove Avenue Rantoul Illinois 61866	Owned		1,253	27,087
10 East Cumberland Street Martinsville Illinois 62442	Owned		314	5,428
826 West Champaign Rantoul Illinois 61866	Leased	1/31/2008		11,505
208 West Washington Street Paris Illinois 61944	Owned		130	

Item 3. Legal Proceedings

The Company and Bank are also subject to claims and lawsuits which arise primarily in the ordinary course of business, such as claims to enforce liens and claims involving the making and servicing of real property loans and other issues. It is the opinion of management that the disposition or ultimate determination of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position and results of operations of the Company and Bank.

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

During the quarter ended December 31, 2007, no matters were submitted to a vote of security holders through a solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

(a) Information relating to the market for Registrant s common stock and related stockholder matters is under Shareholder Information in the 2007 Annual Report to Stockholders attached hereto as Exhibit 13 (2006 Annual Report to Stockholders) on pages 92 and 93 and is incorporated herein by reference.

The Company s Board of Directors has the authority to declare dividends on the Common Stock, subject to statutory and regulatory requirements. The Company currently intends to pay quarterly cash dividends on the common stock at an annual rate of $0.24 per share. However, the rate of such dividends and the continued payment thereof will depend upon a number of factors, including investment opportunities available to us, capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in future periods. Special cash dividends or stock dividends may be paid in addition to, or in lieu of, regular cash dividends.

Dividends from us depend upon the receipt of dividends from the Bank, because the Company has no material source of income other than dividends from the Bank, and interest payments with respect to our loan to our ESOP. See Item 1. Description of Business. Regulation-First Bank & Trust-Dividends.

Any payment of dividends by the Bank to the Company which would be deemed to be drawn out of the Bank s bad debt reserves would require a payment of taxes at the then-current tax rate by the Bank on the amount of earnings deemed to be removed from the reserves for such distribution. The Bank does not intend to make any distribution to the Company that would create such a Federal tax liability.

Unlike the Bank, the Company is not subject to the above regulatory restrictions on the payment of dividends to our stockholders, although the source of such dividends may eventually depend, in part, upon dividends from the Bank in addition to the net proceeds retained by us and earnings thereon. The Company is, however, subject to the requirements of Delaware law, which generally permits the payment of dividends out of surplus, except when (1) the corporation is insolvent or would thereby be made insolvent, or (2) the declaration or payment thereof would be contrary to any restrictions contained in the certificate of incorporation. If there is no surplus available for dividends, a Delaware corporation may pay dividends out of its net profits for the then current or the preceding fiscal year or both, except that no dividend may be paid if the corporation s assets are exceeded by its liabilities or if its net assets are less than the amount which would be needed, under certain circumstances, to satisfy any preferential rights of stockholders.
(b) Not Applicable.
(c) The following table provides information about purchases of the Company s common stock by the Company during the quarter ended December 31, 2007.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/2007 to 10/31/2007				51,710
11/1/2007 to 11/30/2007	9,561	10.36	9,561	42,149
12/1/2007 to 12/31/2007	22,500	10.46	22,500	19,649
Total	32,061	10.43	32,061	19,649

(1) The board of directors approved the repurchase by the Company of 117,710 shares over the one year period ending March 15, 2008.

Item 6. Selected Financial Data
The above captioned information appears under the caption Selected Financial Data in the 2007 Annual Report to Stockholders on page 1 and is incorporated herein by reference.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

The above captioned information appears under the caption Management s Discussion and Analysis in the 2007 Annual Report to Stockholders on pages 2 to 38 and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Sources of market risk include interest rate risk, foreign currency exchange risk, commodity price risk and equity price risk. The Company is only subject to interest rate risk. The Company purchased no financial instruments for trading purposes during the year ended December 31, 2007.

The principal objectives of the Company s interest rate risk management function are: (i) to evaluate the interest rate risk included in certain balance sheet accounts; (ii) to determine the level of risk appropriate given the Company s business focus, operating environment, capital and liquidity requirements, and performance objectives; (iii) to establish asset concentration guidelines; and (iv) to manage the risk consistent with Board-approved guidelines. Through such management, the Company seeks to reduce the vulnerability of its operations to changes interest rates and to manage the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturity terms or repricing dates. The Company s Board of Directors has established an Asset/Liability Committee consisting of directors and senior management officers, which is responsible for reviewing the Company s asset/liability policies and monitoring interest rate risk as such risk relates to its operating strategies. The committee usually meets on a quarterly basis, and at other times as dictated by market conditions, and reports to the Board of Directors. The committee is responsible for reviewing Company activities and strategies, and the effect of those strategies on the Company s net interest margin, the market value of the portfolio and the effect that changes in the interest will have on the Company s portfolio and exposure limits.

The Company s key interest rate risk management tactics consist primarily of: (i) emphasizing the attraction and retention of core deposits, which tend to be a more stable source of funding; (ii) emphasizing the origination of adjustable rate mortgage loan products and short-term commercial and consumer loans for the in-house portfolio, although this is dependent largely on the market for such loans; (iii) selling longer-term fixed-rate one-to-four family mortgage loans in the secondary market; and (iv) investing primarily in U.S. government agency instruments and mortgage-backed securities. The above captioned information appears under the caption Management s Discussion and Analysis Management of Interest Rate Risk in the 2007 Annual Report to Stockholders on pages 33 to 37 and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The consolidated balance sheets of First BancTrust Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2007, 2006, and 2005 together with the report of BKD, LLP appears in the 2007 Annual Report to Stockholders on pages 45 to 91 and is incorporated herein by reference. The Supplementary Data required by Item 8 is incorporated by reference from Note 29 to the financial statements contained in the Annual Report to Stockholders.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A(T). Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of December 31, 2007. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective. There were no significant changes in the Company s internal controls or in other factors that could significantly affect these controls during the quarter ended December 31, 2007.

Disclosure controls and procedures are the controls and other procedures of the Company that are designed to ensure that the information required to be disclosed by the Company in its reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company s management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management s Report on Internal Control over Financial Reporting

The management of First BancTrust Corporation is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective system of internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on that assessment, management concludes that, as of December 31, 2007, the Company s internal control over financial reporting is effective.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

(c) Changes in internal controls.

There were no significant changes made in our internal controls during the period covered by this report, or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of the foregoing evaluation.

Item 9B. Other Information

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference from the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held on April 21, 2007 (Proxy Statement), filed on March 17, 2007 with the Securities and Exchange Commission, under the captions The Audit Committee and Audit Committee Financial Expert on page 7, Code of Ethics on page 9, Election of Directors on page 9, and Compliance With Section 16 page 27. Information on our Executive Officers appears under the caption Backgrounds of Our Executive Officers on page 19 of the Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information relating to executive compensation is incorporated herein by reference from the Registrant s Proxy Statement in the section Compensation Discussion and Analysis on pages 15 through 25, and Compensation Committee Interlocks and Insider Participation on page 25. The information appearing under the caption Compensation Committee Report on page 26 is furnished but shall not be deemed filed or incorporated by reference into any filing under the Exchange Act or the Securities Act of 1933 except as specifically set forth therein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information relating to security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference from the Registrant s Proxy Statement under the captions Security Ownership of Directors, Nominees For Directors, Most Highly Compensated Executive Officers and All Directors and Executive Officers as a Group and Security Ownership of Stockholder Holding 5% or More.

Equity Compensation Plan Information. The following table sets forth certain information for all equity compensation plans and individual compensation arrangements (whether with employees or non-employees, such as directors), in effect as of December 31, 2007.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	289,474	$	9.87	5,200(1)
Equity compensation plans not approved by security holders				
Total	289,174	$	9.87	5,200(1)

(1) As of December 31, 2007, 48,178 shares of restricted stock had been granted, which are excluded from the total.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information relating to certain relationships and related transactions is incorporated herein by reference from the Registrant s Proxy Statement under the caption Transactions With Certain Related Persons. The information relating to director independence is incorporated herein by reference from the Registrant s Proxy Statement under the caption Role and Composition of the Board of Directors.

Item 14. Principal Accountant Fees and Services

The information relating to principal accountant fees and services is incorporated herein by reference from the Registrant s Proxy Statement under the caption Item 2. Ratification of Auditors.

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this report:

(1) Financial Statements

Consolidated Financial Statements of the Registrant are incorporated by reference from the following indicated pages of the 2007 Annual Report to Stockholders.

Independent Accountants Report	45
Consolidated Balance Sheets as of December 31, 2007 and 2006	46-47
Consolidated Statements of Income for the years ended December 31, 2007 2006, and 2005	48-49
Consolidated Statements of Stockholders Equity for the years ended December 31, 2007, 2006, and 2005	50-51
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006, and 2005	52-53
Notes to Consolidated Financial Statements	54-91

The remaining information appearing in the 2007 Annual Report to Stockholders is not deemed to be filed as part of this report, except as expressly provided herein.

(2) Schedules

All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3)(a) Exhibits
The following exhibits are filed as part of this report, and this list includes the Exhibit Index.

No.	Description
3.1	Certificate of Incorporation of First BancTrust Corporation*
3.2	Amended and Restated Bylaws of First BancTrust Corporation (filed herewith)
4.0	Form of Stock Certificate of First BancTrust Corporation*
4.1	Trust Preferred Securities Indenture +
10.1	Employment Agreement between First BancTrust Corporation, First Bank & Trust, s.b. and Terry J. Howard**(1)
10.2	Severance Agreement between First BancTrust Corporation, First Bank & Trust, s.b. and Larry W. Strohm ++(1)
10.3	2002 Stock Option Plan***(1)
10.4	Form of Stock Option Agreement *****(1)
10.5	2002 Recognition and Retention Plan and Trust Agreement***(1)
10.6	First BancTrust Corporation Deferred Compensation Plan **** (1)
10.7	Amendment Number One to First BancTrust Corporation Deferred Compensation Plan **** (1)
10.8	Trust Preferred Securities Subscription Agreement +
10.9	Trust Preferred Securities Declaration of Trust +
10.10	Trust Preferred Securities Guarantee Agreement +
13.0	2007 Annual Report to Stockholders (filed herewith)
14.0	Code of Ethics (filed herewith)
21.0	Subsidiary information is incorporated herein by reference to Part I Subsidiaries
23.0	Consent of BKD, LLP (filed herewith)
31.1	Certification of Terry J. Howard, required by Rule 13a-14(a).
31.2	Certification of Ellen M. Litteral, required by Rule 13a-14(a).
32.1	Certification of Terry J. Howard, Chief Executive Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
32.2	Certification of Ellen M. Litteral, Chief Financial Officer pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

* Incorporated herein by reference from the Registration Statement on Form SB-2, as amended, filed on December 15, 2000, Registration No. 333-51934.

** Incorporated herein by reference from the Registrant s

Form 10-KSB filed on April 1, 2002.

*** Incorporated herein by reference from the Registrant s definitive proxy statement filed on March 22, 2002.

**** Incorporated herein by reference from the Registrant s Form 10-KSB filed on March 28, 2003.

***** Incorporated herein by reference from the Registrant s Form 10-KSB filed on March 29, 2005.

+ Incorporated herein by reference from the Registrant s Form 10-K filed on March 28, 2006.

++ Incorporated herein by reference from the Registrant s Form 10-K filed on March 28, 2007.

(1) Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

First BancTrust Corporation

Date: March 27, 2008

/s/ Terry J. Howard
Terry J. Howard
President, Chief Executive Officer and Director

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

Date: March 27, 2008

/s/ Terry J. Howard
Terry J. Howard
President, Chief Executive Officer and
Director (Principal Executive Officer)

Date: March 27, 2008

/s/ John W. Welborn
John W. Welborn, Director
Chairman of the Board of Directors

Date: March 27, 2008

/s/ Vick N. Bowyer
Vick N. Bowyer, Director

Date: March 27, 2008

/s/ David W. Dick
David W. Dick, Director

Date: March 27, 2008

/s/ James D. Motley
James D. Motley, Director

Date: March 27, 2008

/s/ Joseph R. Schroeder
Joseph R. Schroeder, Director

Date: March 27, 2008

/s/ Terry T. Hutchison
Terry T. Hutchison, Director

Date: March 27, 2008	/s/ John P. Graham John P. Graham, Director
Date: March 27, 2008	/s/ Ellen M. Litteral Ellen M. Litteral, Chief Financial Officer and Treasurer (Principal Accounting and Financial Officer)

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