FEDERAL TRUST CORP
Form 10-Q
May 13, 2005

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

FORM 10-Q

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

[ ] Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from ______________ to ______________

Commission file number 33-27139

FEDERAL TRUST CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Florida	59-2935028
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

312 West 1st Street
Sanford, Florida 32771
(Address of Principal Executive Offices)

(407) 323-1833
(Issuer's Telephone Number)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the Registrant (1) filed all report required to be filed by Section 13 or 15(d) of the Exchange Act during the past twelve months (or for such shorter period that the Small business issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes [X] No [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): Yes [ ] No [X]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common stock, par value $.01 per share	8,073,588 shares
(class)	Outstanding at May 6, 2005

FEDERAL TRUST CORPORATION AND SUBSIDIARY

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	AT	
	MARCH 31, 2005	DECEMBER 31 2004
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 5,562	$ 3,64
Interest-earning deposits	2,522	3,83
Cash and cash equivalents	8,084	7,48
Securities available for sale	47,448	41,17
Loans, less allowance for loan losses of $4,006 in 2005 and $3,835 in 2004	547,522	521,33
Accrued interest receivable	3,291	3,25
Premises and equipment, net	13,162	12,49
Foreclosed assets	306	32
Federal Home Loan Bank stock	9,294	7,38
Mortgage servicing rights, net	873	86
Bank-owned life insurance	6,766	6,70
Deferred tax asset	991	1,11
Other assets	1,263	99
Total assets	$ 639,000	$ 603,13
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Non-interest-bearing demand deposits	$ 13,613	$ 21,30
Interest-bearing demand deposits	47,399	48,79
Money-market deposits	77,302	76,23
Savings deposits	5,595	6,23
Time deposits	259,593	251,54
Total deposits	403,502	404,11
Federal Home Loan Bank advances	179,950	143,70
Other borrowings	885	88
Junior subordinated debentures	5,155	5,15
Capital lease obligation	2,978	3,04
Accrued interest payable	986	81
Official checks	931	1,04
Other liabilities	4,524	4,98
Total liabilities	598,911	563,74
Stockholders' equity:		
Common stock, $.01 par value, 15,000,000 shares authorized; 8,073,563 and 8,061,813 shares outstanding in 2005 and 2004, respectively	81	8
Additional paid-in capital	32,139	32,05
Retained earnings	9,062	8,08
Unallocated ESOP shares (117,114 shares in 2005 and 119,375 shares in 2004)	(846)	(86
Accumulated other comprehensive income (loss)	(347)	2
Total stockholders' equity	40,089	39,38
Total liabilities and stockholders' equity	$ 639,000	$ 603,13

See Accompanying Notes to Condensed Consolidated Financial Statements.

FEDERAL TRUST CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)
(In thousands, except per share amounts)

	THREE MONTHS ENDED MARCH 31, 2005	2004
Interest income:		
Loans	$ 6,896	$ 5,45
Securities	447	29
Other	109	5
Total interest income	7,452	5,79
Interest expense:		
Deposits	2,433	1,65
Other	1,229	73
Total interest expense	3,662	2,39
Net interest income	3,790	3,40
Provision for loan losses	180	55
Net interest income after provision for loan losses	3,610	2,85
Other income:		
Service charges and fees	79	22
Gain on sale of loans held for sale	77	15
Net gain (loss) on sale of securities available for sale	135	(
Rental income	72	6
Increase in cash surrender value of life insurance policies	63	7
Other	203	15
Total other income	629	67
Other expenses:		
Salary and employee benefits	1,167	1,16
Occupancy expense	409	38
Professional services	203	20
Data processing	160	15
Marketing and advertising	61	7
Other	354	36
Total other expenses	2,354	2,34
Earnings before income taxes	1,885	1,18
Income taxes	670	37

Net earnings	$ 1,215	$ 81
Earnings per share:		
Basic	$ .15	$ .1
Diluted	$ .15	$ .1
Weighted-average shares outstanding for (in thousands):		
Basic	7,951	6,52
Diluted	8,180	6,68
Cash dividends per share	$ .03	$ .0

See Accompanying Notes to Condensed Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
($ in thousands)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UN
Balance at December 31, 2003	6,661,807	$ 67	$ 22,069	$ 5,629	$
Comprehensive income:					
Net earnings (unaudited)	-	-	-	810	
Change in unrealized loss on securities available for sale, net of income taxes of $173 (unaudited)	-	-	-	-	
Comprehensive income (unaudited)					
Issuance of common stock, stock options exercised (unaudited)	6	-	-	-	
ESOP shares allocated (4,453 shares) (unaudited)	-	-	-	-	
Dividends paid (unaudited)	-	-	-	(133)	
Balance at March 31, 2004 (unaudited)	6,661,813	$ 67	$ 22,069	$ 6,306	$
Balance at December 31, 2004	8,061,813	$ 81	$ 32,059	$ 8,089	$
Comprehensive income:					
Net earnings (unaudited)	-	-	-	1,215	
Change in unrealized loss on securities available for sale, net of income taxes of $222 (unaudited)	-	-	-	-	

Comprehensive income (unaudited)					
Tax benefit related to exercise of stock options (unaudited)	-	-	26	-	
Issuance of common stock, stock options exercised (unaudited)	11,750	-	47	-	
ESOP shares allocated (2,261 shares) (unaudited)	-	-	7	-	
Dividends paid (unaudited)	-	-	-	(242)	
Balance at March 31, 2005 (unaudited)	8,073,563	$ 81	$ 32,139	$ 9,062	$

	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2003	$ (329)	$ 26,457
Comprehensive income:		
Net earnings (unaudited)	-	810
Change in unrealized loss on securities available for sale, net of income taxes of $173 (unaudited)	312	312
		1,122
Comprehensive income (unaudited)		
Issuance of common stock, stock options exercised (unaudited)	-	-
ESOP shares allocated (4,453 shares) (unaudited)	-	32
Dividends paid (unaudited)	-	(133)
Balance at March 31, 2004 (unaudited)	$ (17)	$ 27,478
Balance at December 31, 2004	$ 20	$ 39,387
Comprehensive income:		
Net earnings (unaudited)	-	1,215
Change in unrealized loss on securities available for sale, net of income taxes of $222 (unaudited)	(367)	(367)
Comprehensive income (unaudited)		848
Tax benefit related to exercise of stock options (unaudited)	-	26
Issuance of common stock, stock options exercised (unaudited)	-	47
ESOP shares allocated (2,261 shares) (unaudited)	-	23
Dividends paid (unaudited)	-	(242)

Balance at March 31, 2005 (unaudited)	$ (347)	$ 40,089

See Accompanying Notes to Condensed Consolidated Financial Statements.

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	THREE MONTHS MARCH 3
	2005
Cash flows from operating activities:	
Net earnings	$ 1,215
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:	
Depreciation and amortization	179
Provision for loan losses	180
Provision for deferred taxes	65
Net amortization of premiums and discounts on securities	23
Net amortization of loan origination fees, costs, premiums and discounts	249
Amortization of mortgage servicing rights	80
Valuation allowance on mortgage servicing rights	-
Earnings on bank-owned life insurance	(63)
Proceeds from sales of loans held for sale	5,173
Loans originated for resale	(7,260)
Gain on sale of loans held for sale	(77)
Net (gain) loss on sales of securities available for sale	(135)
Tax benefit from exercise of stock options	26
Cash provided by (used in) resulting from changes in:	
Accrued interest receivable	(37)
Other assets	15
Accrued interest payable	175
Official checks	(114)
Other liabilities	(685)
Net cash (used in) provided by operating activities	(991)
Cash flows from investing activities:	
Purchase of securities available for sale	(9,638)
Proceeds from principal repayments and sales of securities available for sale	5,423
Loan principal repayments, net of originations	3,994
Purchase of loans	(31,197)
Purchase of premises and equipment	(842)
Net (purchase) redemption of Federal Home Loan Bank stock	(1,909)
Net proceeds from sale of foreclosed assets	144
Net cash used in investing activities	(34,025)
Cash flows from financing activities:	
Net (decrease) increase in deposits	(614)

Net increase (decrease) in Federal Home Loan Bank advances	36,250	
Principal repayments under capital lease obligation	(71)	
Net increase in advance payments from borrowers for taxes and insurance	249	
Dividends paid	(242)	
Net proceeds from the sale of common stock	47	
Net cash provided by financing activities	35,619	
Net increase (decrease) in cash and cash equivalents	603	
Cash and cash equivalents at beginning of period	7,481	
Cash and cash equivalents at end of period	$ 8,084	$

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited), continued
(in thousands)

	THREE MONTHS ENDED MARCH 31	
	2005	2004
Supplemental disclosure of cash flow information-		
Cash paid during the period for:		
Interest	$ 3,487	$ 2,286
Income taxes	$ 125	$ 160
Noncash transactions:		
Foreclosed assets acquired in settlement of loans	$ 124	$ 409
Accumulated other comprehensive income (loss), net change in unrealized gain (loss) on securities available for sale, net of tax	$ (367)	$ 312
Transfer of loans in portfolio to loans held for sale	$ -	$ 6,609
Mortgage servicing rights recognized upon sale of loans held for sale	$ 85	$ 8
ESOP shares allocated	$ 23	$ 32
Securitization of loans held for sale	$ 2,538	$ -

See Accompanying Notes to Condensed Consolidated Financial Statements.

FEDERAL TRUST CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Organization. Federal Trust Corporation ("Federal Trust") is the sole shareholder of Federal Trust Bank (the "Bank"). Federal Trust operates as a unitary savings and loan holding company. Federal Trust's business activities primary include the operation of the Bank. The Bank is federally-chartered as a stock savings bank. The Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation. The Bank provides a wide range of banking services to individual and corporate customers through its six offices located in Orange, Seminole and Volusia Counties, Florida.

The condensed consolidated financial statements include the accounts of Federal Trust and the Bank (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments (principally consisting of normal recurring accruals) necessary to present fairly the financial position as of March 31, 2005, and the results of operations and cash flows for the three-month periods ended March 31, 2005 and 2004. The results of operations for the three-month period ended March 31, 2005, are not necessarily indicative of the results to be expected for the entire year ended December 31, 2005. These statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10 - KSB for the year ended December 31, 2004.

(2) LOANS

The components of loans are summarized as follows (in thousands):

	AT MARCH 31, 2005	AT DECEMBER 31, 2004
Residential Lending:		
Mortgages (1)	$ 380,650	$ 374,581
Lot loans	43,774	41,369
Construction	10,957	5,405
Total Residential lending	435,381	421,355
Commercial Lending:		
Real Estate Secured	64,110	56,267
Land, Development and Construction	42,454	38,091
Commercial loans	12,540	13,257
Total Commercial lending	119,104	107,615
Consumer loans	499	657
Total loans	554,984	529,627
Add (deduct):		
Allowance for loan losses	(4,006)	(3,835
Net premiums, discounts, deferred fees and costs	3,809	3,524

Undisbursed portion of loans in process	(7,265)	(7,985
Loans, net	$ 547,522	$ 521,331

(1) Includes approximately $1,169,000 and $1,628,000 of loans held for sale at March 31, 2005 and December 31, 2004, respectively.

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), CONTINUED

(2) LOANS, CONTINUED

The following is a summary of information regarding nonaccrual and impaired loans (in thousands):

	AT	
	MARCH 31, 2005	DECEMBER 31, 2004
Nonaccrual loans	$ 2,227	$ 2,600
Accruing loans past due ninety days or more	$ -	$ -
Recorded investment in impaired loans for which there is a related allowance for loan losses	$ 2,272	$ 2,648
Recorded investment in impaired loans for which there is no related allowance for loan losses	$ -	$ -
Allowance for loan losses related to impaired loans	$ 334	$ 290

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
Interest income recognized and received on impaired loans	$ 29	$ 43
Average net recorded investment in impaired loans	$ 2,148	$ 5,684

The activity in the allowance for loan losses is as follows (in thousands):

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
Balance at beginning of period	$ 3,835	$ 2,779
Provision for loan losses	180	550
Charge-offs	(10)	(48)
Recoveries	1	2
Balance at end of period	$ 4,006	$ 3,283

A provision for loan losses is charged to earnings based upon management's evaluation of the potential losses in its loan portfolio. During the three months ended March 31, 2005, management made a provision of $180,000 based on its evaluation of the loan portfolio, compared to a provision of $550,000 made in the comparable period in 2004. At March 31, 2005, management believes that the allowance is adequate, primarily as a result of the overall quality, and the high percentage of residential single family home loans, in the portfolio.

(continued)

(3) REGULATORY CAPITAL

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and percentages (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets and Tier I capital to average adjusted assets (as defined in the regulations). Management believes that, as of March 31, 2005, the Bank exceeds the minimum capital adequacy requirements to which it is subject.

In addition, as of March 31, 2005, the Bank met the requirements to be categorized as "well" capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain total risk-based, Tier I risk-based and Tier I leverage percentages as set forth in the table below. There are no conditions or events since March 31, 2005 that management believes would change the institution's categorization as well capitalized. The following table summarizes the capital thresholds for each prompt corrective action capital category. An institution's capital category is based on whether it meets the threshold for all three capital ratios within the category. The Bank's actual capital amounts and percentages are also presented in the table ($ in thousands).

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO C
	AMOUNT	%	AMOUNT	%	AM
At March 31, 2005:					
Total capital (to risk-weighted assets)	$ 47,033	11.0%	$ 34,209	8.0%	$
Tier I capital (to risk weighted assets)	43,027	10.1	17,104	4.0	
Tier I capital (to average adjusted assets)	43,027	6.8	25,363	4.0	

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), CONTINUED

(4) EARNINGS PER SHARE OF COMMON STOCK

The Company follows the provisions of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"). SFAS No. 128 provides accounting and reporting standards for calculating earnings per share. Basic earnings per share of common stock has been computed by dividing the net earnings for the period by the weighted-average number of shares outstanding. Shares of common stock purchased by the Company's Employee Stock Ownership Plan ("ESOP") are considered outstanding when the shares are allocated to participants. Diluted earnings per share is computed by dividing net earnings by the weighted-average number of shares outstanding including the dilutive effect of stock options computed using the treasury stock method. The following table presents the calculation of basic and diluted earnings per share of common stock (in thousands, except per share amounts):

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
Weighted-average shares outstanding before adjustment for unallocated ESOP shares	8,068	6,662
Adjustment to reflect the effect of unallocated ESOP shares	(117)	(133)

Weighted-average shares outstanding for basic earnings per share	7,951	6,529
Basic earnings per share	$ .15	$ .12
Total weighted-average shares outstanding for basic earnings per share computation	7,951	6,529
Additional dilutive shares using the average market value for the period utilizing the treasury stock method regarding stock options	229	154
Weighted-average shares and equivalents outstanding for diluted earnings per share	8,180	6,683
Diluted earnings per share	$ .15	$ .12

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), CONTINUED

(5) STOCK COMPENSATION PLANS

The Company has two stock options plans. The Key Employee Stock Compensation Program (the "Employee Plan") is authorized to issue up to 10% of the issued shares up to a maximum of 1,000,000 shares through the exercise of incentive stock options, compensatory stock options, stock appreciation rights or performance shares. All awards granted under the Employee Plan have been incentive stock options. These options have ten year terms and vest ratably over various terms up to five years. At March 31, 2005, the Company had 332,479 options available for future grants under the Employee Plan.

The Directors' Stock Option Plan (the "Director Plan") is authorized to issue up to 140,000 shares. All options granted under the Director Plan have ten year terms, vest immediately and are not exercisable for a period of six months after the grant date. At March 31, 2005, all of the allocated options in the Director Plan had been granted.

A summary of stock option transactions for the three-month periods ended March 31, 2005 and 2004 follows ($ in thousands, except per share data):

	NUMBER OF OPTIONS	RANGE OF PER SHARE OPTION PRICE	AGGREGATE OPTION PRICE
OPTIONS GRANTED UNDER THE EMPLOYEE PLAN:			
Outstanding at December 31, 2003	377,418	$ 4.00-7.62	$ 1,933
Options granted	3,000	7.62	23
Options exercised	(6)	4.00	-
Options forfeited	(36)	4.00	-
Outstanding at March 31, 2004	380,376	$ 4.00-7.62	$ 1,956

Outstanding at December 31, 2004	380,376	$ 4.00-7.62	$ 1,956
Options granted	24,072	10.25	247
Options forfeited	(46)	4.00	-
Outstanding at March 31, 2005	404,402	$ 4.00-10.25	$ 2,203
OPTIONS GRANTED UNDER THE DIRECTOR PLAN:			
Outstanding at December 31, 2003 and 2004	140,000	$ 4.00-7.62	$ 694
Options Exercised	(11,750)	4.00	(47)
Outstanding at March 31, 2005	128,250	$ 4.00-7.62	$ 647

(continued)

FEDERAL TRUST CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited), CONTINUED

(5) STOCK COMPENSATION PLANS, CONTINUED

Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation, as amended by SFAS No. 148 Accounting for Stock Based Compensation transition and disclosure, ("SFAS No. 123") requires pro forma fair value disclosures if the intrinsic value method is being utilized to calculate the fair value of options. For purposes of pro forma disclosures, the estimated fair value is included in expense in the period vesting occurs. The proforma information has been determined using the Black-Scholes model as if the Company had accounted for its stock options under the fair value method of SFAS No. 123. The Company accounts for its stock option plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25. No stock-based employee compensation cost is reflected in net earnings, as all stock options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates assumptions used in calculating the grant-date fair value and the effect on net earnings and basic and diluted earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation ($ in thousands, except per share amounts):

	THREE MONTHS ENDED MARCH 31,	
	2005	2004
Assumptions for grants made during the period:		
Weighted-average risk-free rate of return	4.34%	4.68%
Annualized dividend yield	1.17%	1.05%
Expected life of options granted	7 years	10 years
Expected stock volatility	20.0%	20.0%
Number of options granted during the period	24,072	3,000
Grant-date fair value of options issued during the period	$ 68	$ 8

Grant-date fair value per share of options issued during the period	$ 2.84	$ 2.68
Net earnings, as reported	$ 1,215	$ 810
Deduct: Total stock-based employee compensation determined under the fair value based method for all awards, net of related tax benefit	(61)	(45)
Proforma net earnings	$ 1,154	$ 765
Basic earnings per share:		
As reported	$ .15	$ .12
Proforma	$ .15	$ .12
Diluted earnings per share:		
As reported	$ .15	$ .12
Proforma	$ .14	$ .11

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

REVIEW BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Hacker, Johnson & Smith PA, the Company's independent registered public accounting firm, have made a limited review of the financial data as of March 31, 2005, and for the three-month periods ended March 31, 2005 and 2004 presented in this document, in accordance with standards established by the Public Company Accounting Oversight Board (United States).

Their report furnished pursuant to Article 10 of Regulation S-X is included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Federal Trust Corporation
Sanford, Florida:

We have reviewed the accompanying condensed consolidated balance sheet of Federal Trust Corporation and Subsidiary (the "Company") as of March 31, 2005, and the related condensed consolidated statements of earnings, stockholders' equity and cash flows for the three-month periods ended March 31, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2004, and the related consolidated statements of earnings, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 15, 2005 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Orlando, Florida
May 9, 2005

FEDERAL TRUST CORPORATION AND SUBSIDIARY

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPARISON OF MARCH 31, 2005 AND DECEMBER 31, 2004

GENERAL

Federal Trust Corporation ("Federal Trust") is the sole shareholder of Federal Trust Bank (the "Bank"). Federal Trust operates as a unitary savings and loan holding company. Federal Trust's business activities primarily include the operation of the Bank. The Bank is federally-chartered as a stock savings bank and the Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation. The Bank provides a wide range of banking services to individual and corporate customers through its six offices located in Seminole, Orange and Volusia Counties, Florida.

FORWARD LOOKING STATEMENTS

Readers should note, in particular, that this document contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. When used in this document, or in the documents incorporated by reference herein, the words "anticipate", "believe", "estimate", "may", "intend" and "expect" and similar expressions identify certain of such forward-looking statements. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. Actual results may differ materially, depending upon a variety of important factors, including competition, inflation, general economic conditions, changes in interest rates and changes in the value of collateral securing loans we have made, among other things.

CAPITAL RESOURCES

During the three months ended March 31, 2005, the Company's primary source of funds consisted of a net increase in Federal Home Loan Bank Advances of $36.3 million. The Company used its capital resources principally to purchase loans of $31.2 million, and to purchase securities available for sale of $9.6 million.

OFF-BALANCE SHEET ARRANGEMENTS AND AGGREGATE CONTRACTUAL OBLIGATIONS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, standby letters of credit and loans in process. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the condensed consolidated balance sheet. The contract amounts of those instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, unused lines of credit and loans in process is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

A summary of the amounts of the Company's financial instruments, with off-balance sheet risk at March 31, 2005, follows (in thousands):

	Contract Amount
Commitments to extend credit	$ 7,288
Unused lines of credit	$ 4,294

Standby letters of credit	$ 2,872
Loans in process	$ 23,478

Management believes the Company has adequate resources to fund all its commitments. At March 31, 2005, the Company had approximately $202 million in time deposits maturing in one year or less. Management also believes that, if so desired, it can adjust the rates on time deposits to retain or obtain new deposits in a changing interest rate environment.

Management believes the Bank was in compliance with all minimum capital requirements which it was subject to at March 31, 2005. See note 3 to the condensed consolidated financial statements.

Management is not aware of any trends, demands, commitments or uncertainties which are expected to have a material impact on future operating results, liquidity or capital resources.

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FEDERAL TRUST CORPORATION AND SUBSIDIARY

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, information regarding: (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest/dividend income; (iv) interest-rate spread; and (v) net interest margin (in thousands).

	THREE MONTHS ENDED MAR			
	2005			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/ COST	AVERAGE BALANCE
Interest-earning assets:				
Loans (1)	$ 529,980	$ 6,896	5.20%	$ 412,11
Securities	43,591	447	4.10	33,40
Other interest-earning assets (2)	10,111	109	4.31	6,71
Total interest-earning assets	583,682	7,452	5.11	452,24
Noninterest-earning assets	31,063			27,84
Total assets	$ 614,745			$ 480,08
Interest-bearing liabilities:				
Noninterest-bearing demand deposits	$ 14,720	-	-	$ 7,62
Interest-bearing demand and money-market deposits	126,302	723	2.29	93,99

Savings deposits	5,790	20	1.38	8,53
Time deposits	256,521	1,690	2.64	214,23
Total deposits	403,333	2,433	2.41	324,38
Borrowings (3)	166,276	1,229	2.96	123,27
Total interest-bearing liabilities	569,609	3,662	2.57	447,66
Noninterest-bearing liabilities	5,398			5,45
Stockholders' equity	39,738			26,96
Total liabilities and stockholders' equity	$ 614,745			$ 480,08
Net interest income		$ 3,790		
Interest-rate spread (4)			2.54%	
Net interest margin (5)			2.60%	
Ratio of average interest-earning assets to average interest-bearing liabilities	1.02			

(1) Includes non-accrual loans.
(2) Includes Federal Home Loan Bank stock and interest-earning deposits.
(3) Includes Federal Home Loan Bank advances, other borrowings, junior subordinated debentures and capital lease obligation.
(4) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Net interest margin is annualized net interest income divided by average interest-earning assets.

FEDERAL TRUST CORPORATION AND SUBSIDIARY

COMPARISON OF THE THREE-MONTH PERIODS ENDED MARCH 31, 2005 AND 2004

General. The Company had net earnings for the three-month period ended March 31, 2005, of $1.2 million or $.15 per basic and diluted share, compared to $810,000 or $.12 per basic and diluted share for the same period in 2004. The increase in net earnings was primarily due to an increase in net interest income, while other expenses were essentially unchanged.

Interest Income. Interest income increased by $1.7 million or 29% to $7.5 million for the three-months ended March 31, 2005, from $5.8 million for the same period in 2004. Interest income on loans increased $1.4 million to $6.9 million in 2005, due to an increase in the average amount of loans outstanding from $412.1 million in 2004 to $530.0 million in 2005, partially offset by a decrease in the average yield earned on loans from 5.29% for the three-month period ended March 31, 2004, to 5.20% for the comparable period in 2005. Interest income on securities increased by $155,000 for the three-month period ended March 31, 2005, over the same period in 2004. Management expects the rates earned on the earning asset portfolio to fluctuate with general market rates.

Interest Expense. Interest expense increased by $1.3 million or 53% during the three-month period ended March 31, 2005, compared to the same period in 2004. Interest on deposits increased $775,000 or 47% to $2.4 million in 2005 from $1.7 million in 2004. The increase in interest on deposits was a result of an increase in average deposits outstanding from $324.4 million in 2004 to $403.3 million in 2005, together with an increase in the average cost of deposits from 2.04% for the three-month period ended March 31, 2004, to 2.41% for the comparable period in 2005. Interest on other borrowings increased to $1.2 million in 2005 from $735,000 in 2004, primarily as a result of an increase in the average amount of other borrowings outstanding from $123.3 million in 2004 to $166.3 million in 2005 and an increase in the average cost from 2.38% to 2.95% from 2004 to 2005. Management expects to continue to use FHLB advances and other borrowings as a liability management tool.

Provision for Loan Losses. A provision for loan losses is charged to earnings based upon management's evaluation of the losses in its loan portfolio. During the quarter ended March 31, 2005, management recorded a provision for loan losses of $180,000 based on its evaluation of the loan portfolio, which was a decrease of $370,000 from the same period in 2004. The allowance for loan losses at March 31, 2005, was $4.0 million compared to $3.8 million at December 31, 2004. As a percent of total loans outstanding, the allowance for loan losses was .72% at both March 31, 2005 and December 31, 2004. Management believes the allowance for loan losses at March 31, 2005 is adequate.

Other Income. Other income decreased to $629,000 for the first quarter of 2005 from $678,000 for the three-month period ended March 31, 2004. The decrease in other income resulted from a decline in service charges and fees, plus gains on the sale of loans, partially offset by an increase in the net gain on sales of securities available for sale.

Other Expenses. Other expenses were $2.4 million for the three-month period ended March 31, 2005, and was virtually unchanged from the same period in 2004. Salaries and employee benefits increased $1,000 and occupancy expense increased $27,000 while marketing and advertising and other expenses decreased $19,000.

Income Taxes. Income taxes for the three months ended March 31, 2005, was $670,000 (an effective rate of 35.5%), compared to $377,000 (an effective rate of 31.8%) for the same period in 2004.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest-rate risk inherent in its lending, investment and deposit taking activities. The Company has little or no risk related to trading accounts, commodities or foreign exchange.

Management actively monitors and manages its interest rate risk exposure. The primary objective in managing interest-rate risk is to limit, within established guidelines, the adverse impact of changes in interest rates on the Company's net interest income and capital, while adjusting the Company's asset-liability structure to obtain the maximum yield-cost spread on that structure. Management relies primarily on its asset-liability structure to control interest rate risk. However, a sudden and substantial increase in interest rates could adversely impact the Company's earnings, to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. There has been no significant change in the Company's market risk exposure since December 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

a. Evaluation of Disclosure Controls and Procedures. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures as of the end of the period covered by this report, the Chief Executive and Chief Financial officers of the Company concluded that the Company's disclosure controls and procedures were adequate.

b. Changes in Internal Controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial Officers.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which Federal Trust Corporation or its subsidiary is a party or to which any of their property is subject.

PART II. OTHER INFORMATION, CONTINUED

Item 6. Exhibits

(a) Exhibits. The following exhibits are filed with or incorporated by reference into this report. The exhibits which are marked by a (1) were previously filed as a part of, and are hereby incorporated by reference from Registrant's Registration Statement on form SB-1, as effective with the Securities and Exchange Commission ("SEC") on October 7, 1997, Registration No. 333-30883. The exhibits which are marked by a (2) were previously filed with the SEC, and are hereby incorporated by reference from Registrant's 1998 Definitive Proxy Statement. The exhibits which are marked with a (3) were previously filed with the SEC, and are hereby incorporated by reference from Registrant's 1999 Definitive Proxy Statement. The exhibits which are marked with a (4) were previously filed with the SEC, and are hereby incorporated by reference from Registrant's 2001 Definitive Proxy Statement. The exhibits which are marked with a (5) were previously filed with the SEC, and are hereby incorporated by reference from Registrant's 1999 Form 10-KSB. The exhibits which are marked with a (6) were previously filed with the SEC and are hereby incorporated by reference from the Registrant's 2004 Form 10-KSB. The exhibit numbers correspond to the exhibit numbers in the referenced documents. The exhibits which are marked with a (7) were previously filed with the SEC, and are hereby incorporated by reference from Registrant's 2005 Definitive Proxy Statement.

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
(1) 3.1	1996 Amended Articles of Incorporation and the 1995 Amended and Restated Articles of Incorporation of Federal Trust
(1) 3.2	1995 Amended and Restated Bylaws of Federal Trust
(2) 3.3	1998 Articles of Amendment to Articles of Incorporation of Federal Trust
(3) 3.4	1999 Articles of Amendment to Articles of Incorporation of Federal Trust
(1) 4.0	Specimen of Common Stock Certificate
(4) 10.1	Amended Employment Agreement By and Among Federal Trust, the Bank and James V. Suskiewich
(4) 10.2	First Amendment to the Amended Employment Agreement By and Among Federal Trust, the Bank and James V. Suskiewich
(6) 10.3	Employee Severance Agreement with Stephen C. Green
(5) 10.4	Amendment to Federal Trust 1998 Key Employee Stock Compensation Program
(5) 10.5	Amendment to Federal Trust 1998 Directors' Stock Option Plan
(6) 10.6	Employee Severance Agreement with Gregory E. Smith
(6) 10.7	Employee Severance Agreement with Daniel C. Roberts
(6) 10.8	Employee Severance Agreement with Jennifer B. Brodnax
(7) 10.9	2005 Directors' Stock Plan
(6) 14.1	Code of Ethical Conduct
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a - 14(a)
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a - 14(a)
32.1	Certification of 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 Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

FEDERAL TRUST CORPORATION AND SUBSIDIARY

SIGNATURES

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

FEDERAL TRUST CORPORATION
(Small business issuer)

Date: May 13, 2005 By: /s/ James V. Suskiewich

James V. Suskiewich
President and Chief Executive Officer

Date: May 13, 2005 By: /s/ Gregory E. Smith

Gregory E. Smith
Executive Vice President and
Chief Financial Officer