

UNITY BANCORP INC /NJ/
Form 10-K
March 18, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITIONAL REPORTS PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

Commission file number 1-12431
Unity Bancorp, Inc.
(Exact Name of Registrant as Specified in Its Charter)

New Jersey
(State or Other Jurisdiction of Incorporation or
Organization)

22-3282551
(I.R.S. Employer Identification No.)

64 Old Highway 22, Clinton, NJ
(Address of Principal Executive Offices)

08809
(Zip Code)

Registrant's telephone number, including area code (908) 730-7630

Securities registered pursuant to Section 12(b) of the Exchange Act:

Common Stock, no par value

NASDAQ

(Title of Each Class)

(Name of Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes No

As of June 30, 2009, the aggregate market value of the registrant’s Common Stock, no par value per share, held by non-affiliates of the registrant was \$16,752,844 and 4,719,111 shares of the Common Stock were outstanding to non-affiliates. As of March 1, 2010, 7,155,838 shares of the registrant’s Common Stock were outstanding.

Documents incorporated by reference:

Portions of Unity Bancorp’s Annual Report to Shareholders for the fiscal year ended December 31, 2009 are incorporated by reference into Parts I, II and IV of this Annual Report on Form 10-K.

Portions of Unity Bancorp’s Proxy Statement for the Annual Meeting of Shareholders to be filed no later than 120 days from December 31, 2009 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business:

a) General

Unity Bancorp, Inc., (the "Company" or "Registrant"), is a bank holding company incorporated under the laws of the State of New Jersey to serve as a holding company for Unity Bank (the "Bank"). The Company was originally organized under the laws of the State of Delaware in 1994. Subsequently, in 2002, the Company effected a re-incorporation merger to become a New Jersey corporation. The Company was organized at the direction of the Board of Directors of the Bank for the purpose of acquiring all of the capital stock of the Bank. Pursuant to the New Jersey Banking Act of 1948 (the "Banking Act"), and pursuant to approval of the shareholders of the Bank, the Company acquired the Bank and became its holding company on December 1, 1994. The only significant activity of the Company is ownership and supervision of the Bank. The Company also owns 100% of the common equity of Unity (NJ) Statutory Trust II and Unity (NJ) Statutory Trust III. The trusts have issued \$10.3 million and \$5.2 million of preferred securities to investors, respectively.

The Bank opened for business on September 16, 1991. The Bank received its charter from the New Jersey Department of Banking and Insurance on September 13, 1991. The Bank is a full-service commercial bank, providing a wide range of business and consumer financial services through its main office in Clinton, New Jersey and fourteen New Jersey branches located in Clinton, Colonia, Edison, Flemington, Highland Park, Linden, Middlesex, North Plainfield, Phillipsburg, Scotch Plains, South Plainfield, Springfield, Union and Whitehouse. In addition, the Bank has two Pennsylvania branches: one located in Forks Township and a second branch on William Penn Highway in Easton. The Bank's primary service area encompasses the Route 22/Route 78 corridors between the Forks Township and Easton, Pennsylvania offices and its Linden, New Jersey branch.

The principal executive offices of the Company are located at 64 Old Highway 22, Clinton, New Jersey 08809, and the telephone number is (908) 730-7630. The Company's website address is www.unitybank.com.

Business of the Company

The Company's primary business is ownership and supervision of the Bank. The Company, through the Bank, conducts a traditional and community-oriented commercial banking business and offers services, including personal and business checking accounts, time deposits, money market accounts and regular savings accounts. The Company structures its specific services and charges in a manner designed to attract the business of the small and medium sized business and professional community, as well as that of individuals residing, working and shopping in its service area. The Company engages in a wide range of lending activities and offers commercial, Small Business Administration ("SBA"), consumer, mortgage, home equity and personal loans.

Service Areas

The Company's primary service area is defined as the neighborhoods served by the Bank's offices. The Bank's main office, located in Clinton, NJ, in combination with its Flemington and Whitehouse offices, serves the greater area of Hunterdon County. The Bank's North Plainfield office serves those communities located in the northern, eastern and central parts of Somerset County and the southernmost communities of Union County. The Bank's Scotch Plains, Linden, Union, and Springfield offices serve the majority of the communities in Union County and the southwestern communities of Essex County. The offices in Middlesex, South Plainfield, Highland Park, Edison, and Colonia Township extend the Company's service area into Middlesex County. The Bank's Phillipsburg office serves Warren County. The Bank's Forks Township office and William Penn office serve Northampton County, Pennsylvania.

Competition

The Company is located in an extremely competitive area. The Company's service area is already serviced by major regional banks, large thrift institutions and a variety of credit unions. In addition, since passage of the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "Modernization Act"), securities firms and insurance companies have been allowed to acquire or form financial institutions, thereby increasing competition in the financial services market. Most of the Company's competitors have substantially more capital, and therefore greater lending limits than the Company. The Company's competitors generally have established positions in the service area and have greater resources than the Company with which to pay for advertising, physical facilities, personnel and interest on deposited funds. The Company relies on the competitive pricing of its loans, deposits and other services, as well as its ability to provide local decision-making and personal service in order to compete with these larger institutions.

Employees

At December 31, 2009, the Company employed 159 full-time and 12 part-time employees. None of the Company's employees are represented by any collective bargaining units. The Company believes that its relations with its employees are good.

Executive Officers of Registrant

The following table sets forth certain information as of December 31, 2009, regarding each executive officer of the Company who is not also a director.

Name, Age and Position	Officer Since	Principal Occupation During Past Five Years
John Kauchak, 56, Chief Operating Officer and Executive Vice President of the Company and Bank	2002	Previously, Mr. Kauchak was the head of Deposit Operations for Unity Bank from 1996 to 2002.
Alan J. Bedner, 39, Chief Financial Officer and Executive Vice President of the Company and Bank	2003	Previously, Mr. Bedner was Controller for Unity Bank from 2001 to 2003.
Dave Hensley, 63, Acting Chief Lending Officer and Senior Vice President of the Company and Bank	2009	Previously, Mr. Hensley was a Commercial Lender for Unity Bank from 2002 to 2009.

SUPERVISION AND REGULATION

General Supervision and Regulation

Bank holding companies and banks are extensively regulated under both federal and state law. These laws and regulations are intended to protect depositors, not stockholders. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory

provisions. Any change in the applicable law or regulation may have a material effect on the business and prospects of the Company and the Bank. Over the past several years, a number of legislative proposals have been debated in Congress concerning modernization of the nation's financial system. Many of these proposals would substantially alter the current regulatory framework, particularly as it relates to bank holding companies and their powers. Management of the Company is unable to predict, at this time, which, if any, of these legislative proposals may ultimately be adopted and the impact of any such regulatory proposals on the business of the Company.

General Bank Holding Company Regulation

General: As a bank holding company registered under the Bank Holding Company Act of 1956, as amended, (the "BHCA"), the Company is subject to the regulation and supervision of the Federal Reserve Board (the "FRB"). The Company is required to file with the FRB annual reports and other information regarding its business operations and those of its subsidiaries. Under the BHCA, the Company's activities and those of its subsidiaries are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries or engaging in any other activity which the FRB determines to be so closely related to banking or managing or controlling banks as to be properly incident thereto.

The BHCA requires, among other things, the prior approval of the FRB in any case where a bank holding company proposes to; (i) acquire all or substantially all of the assets of any other bank; (ii) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank (unless it owns a majority of such bank's voting shares); or (iii) merge or consolidate with any other bank holding company. The FRB will not approve any acquisition, merger or consolidation that would have a substantially anti-competitive effect, unless the anti-competitive impact of the proposed transaction is clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The FRB also considers capital adequacy and other financial and managerial resources and future prospects of the companies and the banks concerned, together with the convenience and needs of the community to be served, when reviewing acquisitions or mergers.

The BHCA also generally prohibits a bank holding company, with certain limited exceptions, from; (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company; or (ii) engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or performing services for its subsidiaries, unless such non-banking business is determined by the FRB to be so closely related to banking or managing or controlling banks as to be properly incident thereto. In making such determinations, the FRB is required to weigh the expected benefits to the public such as, greater convenience, increased competition or gains in efficiency, against the possible adverse effects; such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

The BHCA was substantially amended through the Modernization Act. The Modernization Act permits bank holding companies and banks, which meet certain capital, management and Community Reinvestment Act standards, to engage in a broader range of non-banking activities. In addition, bank holding companies, which elect to become financial holding companies, may engage in certain banking and non-banking activities without prior FRB approval. Finally, the Modernization Act imposes certain new privacy requirements on all financial institutions and their treatment of consumer information. At this time, the Company has elected not to become a financial holding company.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the Federal Deposit Insurance Corporation (the "FDIC") insurance fund in the event the depository institution becomes in danger of default. Under a policy of the FRB with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. The FRB also has the authority under the BHCA to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

Capital Adequacy Guidelines for Bank Holding Companies: The FRB has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines are designed to make regulatory capital requirements more

sensitive to differences in risk profile among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Under these guidelines, assets and off-balance sheet items are assigned to broad-risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The risk-based guidelines apply on a consolidated basis to bank holding companies with consolidated assets of \$500 million or more. The minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least 4% of the total capital is required to be "Tier I," consisting of common stockholders' equity and certain preferred stock and other qualifying hybrid instruments, less certain goodwill items and other intangible assets. The remainder, "Tier II Capital," may consist of; (a) the allowance for loan losses of up to 1.25% of risk-weighted assets; (b) excess of qualifying preferred stock; (c) hybrid capital instruments; (d) debt; (e) mandatory convertible securities; and (f) qualifying subordinated debt. Total capital is the sum of Tier I and Tier II capital, less reciprocal holdings of other banking organizations' capital instruments, investments in unconsolidated subsidiaries and any other deductions as determined by the FRB (determined on a case-by-case basis or as a matter of policy after formal rule-making).

Bank holding company assets are given risk-weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset-equivalent amounts to which an appropriate risk-weighting will apply. These computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for performing first-mortgage loans that are fully secured by residential property, which carry a 50% risk-weighting. Most investment securities (including, primarily, general obligation claims of states or other political subdivisions of the United States) are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weighting, and direct obligations of the U.S. Treasury or obligations backed by the full faith and credit of the U.S. Government, which have a 0% risk-weighting. In converting off-balance sheet items, direct credit substitutes (including general guarantees and standby letters of credit backing financial obligations) are given a 100% risk-weighting. Transaction-related contingencies, such as standby letters of credit backing non-financial obligations and undrawn commitments (including commercial credit lines with an initial maturity of more than one year), have a 50% risk-weighting. Short-term commercial letters of credit have a 20% risk-weighting and certain short-term unconditionally cancelable commitments have a 0% risk-weighting.

In addition to the risk-based capital guidelines, the FRB has adopted a minimum Tier I capital (leverage) ratio, under which a bank holding company must maintain a minimum level of Tier I capital to average total consolidated assets of at least 3% in the case of a bank holding company that has the highest regulatory examination rating and is not contemplating significant growth or expansion. All other bank holding companies are expected to maintain a leverage ratio of at least 100 to 200 basis points above the stated minimum.

The Company is currently in compliance with these minimum Federal capital requirements.

General Bank Regulation

As a New Jersey-chartered commercial bank, the Bank is subject to the regulation, supervision, and control of the New Jersey Department of Banking and Insurance (the "Department"). As an FDIC-insured institution, the Bank is subject to regulation, supervision and control of the FDIC, an agency of the federal government. The regulations of the FDIC and the Department affect virtually all activities of the Bank, including the minimum level of capital that the Bank must maintain, the ability of the Bank to pay dividends, the ability of the Bank to expand through new branches or acquisitions and various other matters.

Insurance of Deposits: During the third quarter of 2008, Congress instituted the Emergency Economic Stabilization Act (the "Act") to address the dysfunctional credit markets. This Act authorized the Troubled Asset Relief Program ("TARP") which provided capital to financial institutions and purchased troubled mortgages from institutions. The U.S. Department of Treasury's Capital Purchase Program ("CPP") authorized the Treasury to purchase newly issued preferred stock and common stock purchase warrants from financial institutions or their holding companies. In addition, the Act authorized the temporary increase in the FDIC insurance limit to \$250 thousand from \$100 thousand per account. The FDIC also implemented a program to insure all deposits held in noninterest-bearing transactional accounts, regardless of amount, at institutions which do not opt out of the program and which pay an additional assessment to the

FDIC. The unlimited insurance coverage for noninterest bearing transactional accounts will expire on June 30, 2010 for those institutions that have elected not to opt out of the program and which pay additional insurance assessments. The Bank elected not to opt out of this program, and is paying the required assessment. The increased deposit insurance for all accounts will expire on December 31, 2013 and the prior limits, described below, will go back into effect.

Prior to the fall of 2008, the Bank's deposits were insured up to a maximum of \$100,000 per depositor (\$250,000 per IRA account) under the Deposit Insurance Fund of the FDIC. Pursuant to the Federal Deposit Insurance Corporation Improvements Act of 1991 ("FDICIA"), the FDIC has established a risk-based assessment system. Premium assessments under this system are based upon; (i) the probability that the insurance fund will incur a loss with respect to the institution; (ii) the likely amount of the loss; and (iii) the revenue needs of the insurance fund. To effectuate this system, the FDIC has developed a matrix that sets the assessment premium for a particular institution in accordance with its capital level and overall rating by the primary regulator.

The FDIC has significantly increased deposit insurance assessment rates, beginning in the second quarter of 2009. As increased, the adjusted base assessment rates range from 12.0 to 77.5 basis points of deposits, a significant increase over premium rates for the past several years. In addition, the Bank will pay a special assessment between 15 and 25 basis points of the amount of deposits in excess of \$250,000 commencing on January 1, 2010. The FDIC also levied a special assessment of 5 basis points on assets less Tier 1 Capital as of June 30, 2009, paid September 30, 2009. The 5 basis point special assessment resulted in a charge to the Bank of approximately \$408 thousand. The FDIC also required insured depository institutions to pre-pay deposit insurance premiums for the next two and one-half years in 2009. Premium assessments are to increase by three basis points in 2011. These additional costs have and will adversely affect the Company's results of operations.

Dividend Rights: Under the Banking Act, a bank may declare and pay dividends only if, after payment of the dividend, the capital stock of the bank will be unimpaired and either the bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the bank's surplus.

On December 5, 2008, the Company completed a transaction with the U.S. Treasury under the CPP through which the Treasury purchased \$20.6 million in preferred stock from the Company. As part of the CPP, the Company's future ability to pay cash dividends is limited for so long as the Treasury holds the preferred stock. As so limited the Company may not increase its quarterly cash dividend above \$.05 per share, the quarterly rate in effect at the time the CPP program was announced, without the prior approval of the Treasury.

Sarbanes-Oxley Act

On July 30, 2002, the Sarbanes-Oxley Act ("SOX") was enacted. SOX is not a banking law, but applies to all public companies, including the Company. The stated goals of SOX are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. SOX is the most far-reaching U.S. securities legislation enacted in some time. SOX generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended.

SOX includes very specific additional disclosure requirements and corporate governance rules and requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of specific issues by the SEC. SOX represents significant federal involvement in matters traditionally left to state regulatory systems such as, the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

SOX addresses, among other matters:

- Audit Committees;
- certification of financial statements by the Chief Executive Officer and the Chief Financial Officer;

- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement;
- a prohibition on insider trading during pension plan black-out periods;

- disclosure of off-balance sheet transactions;
 - a prohibition on personal loans to officers and directors, unless subject to Federal Reserve Regulation O;
- expedited filing requirements for Form 4 statements of changes of beneficial ownership of securities required to be filed by officers, directors and 10% shareholders;
 - disclosure of whether or not a company has adopted a code of ethics;
 - “real time” filing of periodic reports;
 - auditor independence; and
 - various increased criminal penalties for violations of securities laws.

Complying with the requirements of SOX as implemented by the SEC will increase our compliance costs and could make it more difficult to attract and retain board members.

The American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (the “ARRA”) became law on February 17, 2009. The main purpose of the ARRA is to provide fiscal stimulus to the U.S. economy and help foster job creation and economic activity. However, portions of the ARRA amend the Emergency Economic Stabilization Act (discussed above) and the terms of the CPP, and impose new requirements on institutions participating in the CPP, like the Company. Among other things, these provisions, and the regulations issued by the Treasury to implement them, require substantial new restrictions on executive compensation, prohibiting severance payments regardless of the cause of an executive’s departure and bonus payments to certain officers of institutions participating in the CPP, and require the adoption of various policies and procedures affecting compensation. The ARRA also imposes new certification requirements on management of an institution participating in the CPP, and new review requirements on the compensation committee of such an institution. These restrictions may make it more difficult for the Company to attract and retain senior management.

b) Statistical Information

The table below provides a cross-reference to portions of Unity Bancorp. Inc.'s Annual Report to Shareholders for the year ended December 31, 2009 (Exhibit 13 hereto), which, to the extent indicated, is incorporated by reference herein. Information that is not applicable is indicated by (N/A):

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Item 1A. Risk Factors:

Our business, financial condition, results of operations and the trading prices of our securities can be materially and adversely affected by many events and conditions including the following:

Risks affecting Our Business:

The nationwide recession may adversely affect our business by reducing real estate values in our trade area and stressing the ability of our customers to repay their loans.

Our New Jersey trade area, like the rest of the United States, is currently experiencing economic contraction. As a result, many companies have experienced reduced revenues and have laid off employees. These factors have stressed the ability of both commercial and consumer customers to repay their loans, and have, and may in the future, result in higher levels of nonaccrual loans. In addition, real estate values have declined in our trade area. Since the majority of our loans are secured by real estate, declines in the market value of real estate impact the value of the collateral securing our loans, and could lead to greater losses in the event of defaults on loans secured by real estate.

Our FDIC deposit insurance premiums have increased and may continue to increase, substantially increasing our noninterest expense.

During 2008 and 2009, the FDIC has significantly increased its assessments for deposit insurance due to the weakness in the economy and the increased number of bank failures. In 2008, we paid \$589 thousand in deposit insurance assessments and in 2009 this increased to \$1.7 million. During 2009, the FDIC announced increased assessments, which went into effect for the second quarter of 2009, raising insurance premiums for the healthiest banks by 7 basis points. In addition, the FDIC has required insured depository institutions like the Bank to pre-pay deposit insurance premiums for the next two and one-half years in 2009, and to increase deposit insurance assessments by three basis points in 2011. Banks that have opted to remain eligible for the FDIC's increased insurance program for noninterest-bearing deposits must also pay an assessment of 10 basis points of the amount of noninterest-bearing deposits in excess of \$250,000 through December 31, 2009, with a higher assessment beginning January 1, 2010 through the end of the program on June 30, 2010. As a result of these increased assessments, we will face higher noninterest expense in future periods.

Our nonperforming assets have substantially increased over the past year, and this has, and will continue, to affect our results of operations.

Over the course of 2009, our total nonperforming assets have increased to \$27.0 million, or 4.10% of our total loans and OREO, from \$16.8 million, or 2.45% of our total loans and OREO. The increase in nonperforming assets reflects the general economic slowdown in our marketplace and its effect on our borrowers, and our focus on SBA lending, which may entail greater credit risk than other types of lending. This deterioration in credit quality has negatively impacted our results of operations, through additional provisions for loan losses and reduced interest income, and will continue to impact our performance until these assets are resolved. In addition, future increases in our nonperforming assets will further negatively affect our results of operations. We can give you no assurance that our nonperforming assets will not increase further.

We are subject to interest rate risk and variations in interest rates may negatively affect our financial performance; in addition, dislocation and volatility in the credit markets may negatively affect the value of our assets.

Beginning in mid 2008, there has been significant turmoil and volatility in global financial markets. Nationally, we have seen economic factors such as a recession, a rise in unemployment, and a weakened U.S. dollar. Recent market

uncertainty regarding the financial sector has increased. In addition to the impact on the economy, changes in interest rates, in the shape of the yield curve, or in valuations in the debt or equity markets or disruptions in the liquidity or other functioning of financial markets, all of which have been seen recently, could directly impact us in one or more of the following ways:

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· Net interest income, the difference between interest earned on our interest-earning assets and interest paid on interest-bearing liabilities, represents a significant portion of our earnings. Both increases and decreases in the interest rate environment may reduce our profits. We expect that we will continue to realize income from the spread between the interest we earn on loans, securities and other interest-earning assets, and the interest we pay on deposits, borrowings and other interest-bearing liabilities. The net interest spread is affected by the differences between the maturity and repricing characteristics of our interest-earning assets and interest-bearing liabilities. Our interest-earning assets may not reprice as slowly or rapidly as our interest-bearing liabilities.

· The market value of our securities portfolio may decline and result in other-than-temporary charges or realized losses on the sale of securities. The value of securities in our portfolio are affected by factors that impact the U.S. securities markets in general as well specific financial sector factors such as the deterioration of the credit worthiness of issuers. Further declines in these sectors may result in future other-than-temporary impairment charges and/or realized losses on the sale of securities.

· Asset quality may deteriorate as borrowers become unable to repay their loans.

· Lack of liquidity within the capital markets which we use to raise funds to support our business transactions may impact the cost of funds or our ability to raise funds.

Our business strategy could be adversely affected if we are not able to attract and retain skilled employees and manage our expenses.

We expect to continue to experience growth in the scope of our operations; and, correspondingly, in the number of our employees and customers. We may not be able to successfully manage our business as a result of the strain on our management and operations that may result from this growth. Our ability to manage this growth will depend upon our ability to continue to attract, hire and retain skilled employees. Our ability to attract and retain senior management may be adversely affected by the restrictions imposed upon us under the CPP, as revised by the American Reinvestment and Recovery Act. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees.

Curtailment of the Small Business Administration loan program could negatively affect the Company; the absence of a secondary market for SBA loans could negatively affect our operation.

The Company has historically been a participant in various SBA lending programs, and the Company's activity under these programs has contributed significantly to its net income. Proposals have been made from time to time to curtail the Federal Government's funding of the SBA loan programs. Any reduction in SBA funding for its loan programs could negatively affect our results of operations.

There is a risk that the SBA will not honor their guarantee.

The Company has historically been a participant in various SBA lending programs which guarantee up to 90% of the principal on the underlying loan. There is a risk that the SBA will not honor their guarantee if a loan is not underwritten to SBA guidelines. The Company follows the underwriting guidelines of the SBA, however our ability to manage this will depend on our ability to continue to attract, hire and retain skilled employees who have knowledge of the SBA program.

Our ability to earn significant noninterest income from the sale of SBA loans into the secondary market has been negatively impacted by current market conditions affecting the secondary market for SBA loans.

Historically, the Company has earned significant noninterest income from the sale into the secondary market of substantially all of the guaranteed portion of its loans originated under the SBA's loan programs. However, starting in the fall of 2008, the secondary market for SBA loans lost liquidity, and SBA loan program participants like the Company have had difficulty selling SBA loans in the secondary market. In order to manage our capital levels, and in order to avoid holding a significant amount of these SBA loans in our portfolio, we have elected to substantially curtail our participation in SBA lending programs, closing our loan origination operations outside of our New York, New Jersey and Pennsylvania primary trade areas and only offering SBA loan products as an adjunct to community banking business. As a result, our noninterest income has substantially declined, and will not likely return to historic levels.

Risks Related to the Banking Industry:

Changes in local economic conditions could adversely affect our loan portfolio.

Our success depends to a great extent upon the general economic conditions of the local markets that we serve. Unlike larger banks that are more geographically diversified, we provide banking and financial services primarily to customers in the six counties in the New Jersey market and one county in Pennsylvania in which we have branches, so any decline in the economy of New Jersey or eastern Pennsylvania could have an adverse impact on us.

Our loans, the ability of borrowers to repay these loans, and the value of collateral securing these loans are impacted by economic conditions. Our financial results, the credit quality of our existing loan portfolio, and the ability to generate new loans with acceptable yield and credit characteristics may be adversely affected by changes in prevailing economic conditions, including declines in real estate values, changes in interest rates, adverse employment conditions and the monetary and fiscal policies of the federal government. Although economic conditions in our primary market have fared better than other areas of the United States, we cannot assure you that these conditions will continue to prevail. We cannot assure you that positive trends or developments discussed in this annual report will continue or that negative trends or developments will not have a significant adverse effect on us.

There is a risk that we may not be repaid in a timely manner, or at all, for loans we make.

The risk of nonpayment (or deferred or delayed payment) of loans is inherent in commercial banking. Such nonpayment, or delayed or deferred payment of loans to the Company, if they occur, may have a material adverse effect on our earnings and overall financial condition. Additionally, in compliance with applicable banking laws and regulations, the Company maintains an allowance for loan losses created through charges against earnings. As of December 31, 2009, the Company's allowance for loan losses was \$13.8 million, or 2.11% of our total loan portfolio and 51.2% of our nonperforming assets. The Company's marketing focus on small to medium size businesses may result in the assumption by the Company of certain lending risks that are different from or greater than those which would apply to loans made to larger companies. We seek to minimize our credit risk exposure through credit controls, which include evaluation of potential borrowers' available collateral, liquidity and cash flow. However, there can be no assurance that such procedures will actually reduce loan losses.

Our allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for loan losses to provide for loan defaults and nonperformance. Our allowance for loan losses may not be adequate to cover actual losses, and future provisions for loan losses could materially and adversely affect the results of our operations. Risks within the loan portfolio are analyzed on a continuous basis by management; and, periodically, by an independent loan review function and by the Audit Committee. A risk system, consisting of multiple-grading categories, is utilized as an analytical tool to assess risk and the appropriate level of loss reserves. Along with the risk system, management further evaluates risk characteristics of the loan portfolio under current economic conditions and considers such factors as the financial condition of the borrowers, past and expected loan loss experience and other factors management feels deserve recognition in establishing an adequate reserve. This risk assessment process is performed at least quarterly and, as adjustments become necessary, they are realized in the periods in which they become known. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. State and federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses and have in the past required an increase in our allowance for loan losses. Although we believe that our allowance for loan losses is adequate to cover probable and reasonably estimated losses, we cannot assure you that we will not further increase the allowance for loan losses or that our regulators will not require us to increase this allowance. Either of these

occurrences could adversely affect our earnings.

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We are in competition with many other banks, including larger commercial banks which have greater resources than us.

The banking industry within the State of New Jersey is highly competitive. The Company's principal market area is also served by branch offices of large commercial banks and thrift institutions. In addition, in 1999 the Gramm-Leach-Bliley Financial Modernization Act of 1999 was passed into law. The Modernization Act permits other financial entities, such as insurance companies and securities firms, to acquire or form financial institutions, thereby further increasing competition. A number of our competitors have substantially greater resources than we do to expend upon advertising and marketing, and their substantially greater capitalization enables them to make much larger loans. Our success depends a great deal upon our judgment that large and mid-size financial institutions do not adequately serve small businesses in our principal market area and upon our ability to compete favorably for such customers. In addition to competition from larger institutions, we also face competition for individuals and small businesses from recently formed banks seeking to compete as "hometown" institutions. Most of these new institutions have focused their marketing efforts on the smaller end of the small business market we serve.

The laws that regulate our operations are designed for the protection of depositors and the public, but not our stockholders.

The federal and state laws and regulations applicable to our operations give regulatory authorities extensive discretion in connection with their supervisory and enforcement responsibilities and generally have been promulgated to protect depositors and the deposit insurance funds and not for the purpose of protecting stockholders. These laws and regulations can materially affect our future business. Laws and regulations now affecting us may be changed at any time, and the interpretation of such laws and regulations by bank regulatory authorities is also subject to change. We can give no assurance that future changes in laws and regulations or changes in their interpretation will not adversely affect our business.

We may be subject to higher operating costs as a result of government regulation.

We are subject to extensive federal and state legislation, regulation and supervision which are intended primarily to protect depositors and the Federal Deposit Insurance Corporation's Deposit Insurance Fund, rather than investors. Legislative and regulatory changes may increase our costs of doing business; or, otherwise, adversely affect us and create competitive advantages for non-bank competitors.

We cannot predict how changes in technology will impact our business.

The financial services market, including banking services, is increasingly affected by advances in technology, including developments in:

- telecommunications;
- data processing;
 - automation;
- Internet-based banking;
 - Tele-banking; and
- debit cards and so-called "smart cards."

Our ability to compete successfully in the future will depend on whether we can anticipate and respond to technological changes. To develop these and other new technologies, we will likely have to make additional capital investments. Although we continually invest in new technology, we cannot assure you that we will have sufficient resources or access to the necessary proprietary technology to remain competitive in the future.

The Company's information systems may experience an interruption or breach in security.

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer-relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur; or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny or expose the Company to civil litigation and possible financial liability; any of which could have a material adverse affect on the Company's financial condition and results of operations.

Item 1B. Unresolved Staff Comments: None

Item 2. Properties:

The Company presently conducts its business through its main office located at 64 Old Highway 22, Clinton, New Jersey, and its sixteen branch offices.

The following table sets forth certain information regarding the Company's properties from which it conducts business as of December 31, 2009.

Location	Leased or Owned	Date Leased or		2009 Annual Rental Fee
		Acquired	Lease Expiration	
Clinton, NJ	Leased	1996	2013	\$ 400,000
Colonia, NJ	Leased	1998	2012	38,672
Flemington, NJ	Owned	2005	-----	-----
Linden, NJ	Owned	1997	-----	-----
Highland Park, NJ	Leased	1999	2014	91,193
North Plainfield, NJ	Owned	1991	-----	-----
Scotch Plains, NJ	Owned	2004	-----	-----
Springfield, NJ	Leased	1995	2011	32,935
South Plainfield, NJ	Leased	1999	2014	110,459
Union, NJ	Owned	2002	-----	-----
Edison, NJ	Leased	1999	2014	128,143
Whitehouse, NJ	Owned	1998	-----	-----
Phillipsburg, NJ	Leased	2005	2015	82,588
Middlesex, NJ	Owned	2007	-----	-----
Forks Township, PA	Leased	2006	2010	56,938
William Penn (Easton), PA	Leased	2007	2010	67,911
Great Neck, NY	Leased	2006	2010	39,820

Item 3. Legal Proceedings:

From time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business. The Company currently is not aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse effect on the business, financial condition, or operating results of the Company.

PART II

Item 4. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:

(a) Market Information

The Company's Common Stock is quoted on the NASDAQ Global Market under the symbol "UNTY." The following table sets forth the high and low closing prices of the Common Stock as reported on the NASDAQ Global Market for the periods indicated. The prices reflect the impact of the 5 percent stock distribution paid on June 27, 2008.

Year Ended December 31, 2009:	High	Low
4th Quarter	\$4.49	\$3.95
3rd Quarter	4.45	3.15
2nd Quarter	4.00	3.00
1st Quarter	3.90	2.75
Year Ended December 31, 2008	High	Low
4th Quarter	\$4.85	\$2.81
3rd Quarter	6.95	4.00
2nd Quarter	8.00	6.48
1st Quarter	9.25	7.50

(b) Holders

As of March 1, 2010, there were approximately 491 shareholders of record of the Company's Common Stock.

(c) Dividends

In the first and second quarters of 2008, the Company paid a cash dividend of \$0.05 per share. The Company has not paid a cash dividend since the second quarter of 2008.

Under the terms of the CPP, we are limited in our ability to pay cash dividends. Without the approval of the Treasury, we cannot pay a quarterly cash dividend in excess of \$0.05 per share, the amount of our last quarterly cash dividend prior to October 14, 2008. In addition, during the third quarter of 2008, the Company revised its cash dividend payment policy. The decision was made based upon the current economic environment to retain capital so that the holding company can remain a source of strength to the subsidiary bank. Previously, the Company had paid a quarterly cash dividend at a rate set by the Board based upon a number of factors. The Board has now established a targeted dividend payout ratio of 20 percent of the Company's earnings, subject to adjustment based upon factors existing at the time of the dividend and the Company's projected capital needs. The Board now intends to pay a cash dividend once annually, in the next succeeding year.

Item 5. Selected Financial Data:

The information under the caption, "Selected Consolidated Financial Data," on page 58 of the Company's Annual Report to Shareholders for the year ended December 31, 2009, is incorporated by reference herein.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations:

The information under the caption, "Management's Discussion and Analysis of Financial Condition and Results of Operations," on pages 5 through 24 of the Company's Annual Report to Shareholders for the year ended December 31, 2009, is incorporated by reference herein.

Item 6A. Quantitative and Qualitative Disclosures About Market Risk:

The information under the caption, "Market Risk," on pages 19 through 20 of the Company's Annual Report to Shareholders for the year ended December 31, 2009, is incorporated by reference herein.

Item 7. Financial Statements and Supplementary Data:

The Financial Statements and Notes to Consolidated Financial Statements on pages 27 through 57 of the Company's Annual Report to Shareholders for the year ended December 31, 2009, are incorporated by reference herein.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure: None

Item 8A(T). Controls and Procedures:

(a) Evaluation of disclosure controls and proceedings:

Based on their evaluation, as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Management's Report on Internal Control Over Financial Reporting:

The information under the caption, "Management's Report on Internal Control Over Financial Reporting," on page 25 of the Company's Annual Report to Shareholders for the year ended December 31, 2009, is incorporated by reference herein.

(c) Changes in internal controls:

There were not any significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 8B. Other Information: None

PART III

Item 9. Directors, Executive Officers and Corporate Governance; Compliance with Section 16(a) of the Exchange Act:

The information concerning the directors and executive officers of the Company under the caption "Election of Directors," and the information under the captions, "Compliance with Section 16(a) of the Securities Exchange Act of 1934," and, "Governance of the Company," in the Proxy Statement for the Company's 2010 Annual Meeting of

Shareholders, is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 30, 2010.

Also, refer to the information under the caption, "Executive Officers of Registrant," in Part I of this Annual Report on Form 10-K for a description of the Company's executive officers, who are not also directors.

Item 10. Executive Compensation:

The information concerning executive compensation under the caption, “Executive Compensation,” in the Proxy Statement for the Company’s 2010 Annual Meeting of Shareholders, is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 30, 2010.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters:

The information concerning the security ownership of certain beneficial owners and management under the caption, “Security Ownership of Certain Beneficial Owners and Management,” in the Proxy Statement for the Company’s 2010 Annual Meeting of Shareholders is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 30, 2010.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information with respect to the equity securities that are authorized for issuance under the Company’s compensation plans as of December 31, 2009.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation stock option plans approved by security holders	886,286	\$ 5.73	58,711
Equity compensation plans approved by security holders (Restricted Stock Plan)	54,581	-	24,853
Equity compensation plans not approved by security holders	-	-	-
Total	940,867	\$ 5.40	83,564

There were no share repurchases during 2009 or 2008. Pursuant to the requirements of the Treasury’s Capital Purchase Program, the Company has suspended its stock repurchase program.

Item 12. Certain Relationships and Related Transactions and Director Independence:

The information concerning certain relationships and related transactions under the caption, “Interest of Management and Others in Certain Transactions; Review, Approval or Ratification of Transactions with Related Persons,” in the Proxy Statement for the Company’s 2010 Annual Meeting of Shareholders is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 30,

2010.

Item 13. Principal Accountant Fees and Services:

The information concerning principal accountant fees and services, as well as related pre-approval policies, under the caption, "Independent Registered Public Accounting Firm," in the Proxy Statement for the Company's 2010 Annual Meeting of Shareholders is incorporated by reference herein. It is expected that such Proxy Statement will be filed with the Securities and Exchange Commission no later than April 30, 2010.

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PART IV

Item 14. Exhibits and Financial Statement Schedules:

(a) FINANCIAL STATEMENTS:

The following Consolidated Financial Statements of the Company and subsidiaries included in the Company's Annual Report to Shareholders for the year ended December 31, 2009, are incorporated by reference in Part II, Item 8.

Report of Independent Registered Public Accounting Firm (page 26)

Consolidated Balance Sheets (page 27)

Consolidated Statements of Operations (page 28)

Consolidated Statements of Changes in Shareholders' Equity (page 29)

Consolidated Statements of Cash Flows (page 30)

Notes to Consolidated Financial Statements (pages 31 through 57)

(b) EXHIBITS:

Exhibit

Number	Description of Exhibits
3(i)	Certificate of Incorporation of the Company, as amended (2)
3(ii)	Bylaws of the Company (7)
4(i)	Form of Stock Certificate (7)
10(i)	1994 Stock Option Plan for Non-Employee Directors (1)
10(ii)	1997 Stock Option Plan (3)
10(iii)	1997 Stock Bonus Plan (3)
10(iv)	1998 Stock Option Plan (4)
10(v)	1999 Stock Option Plan (5)
10(vi)	Employment Agreement dated March 23, 2004 with James A. Hughes (8)
10(vii)	Settlement Agreement and General Release dated December 31, 2003 with Anthony J. Feraro (8)
10(ix)	Retention Agreement dated March 23, 2004 with Michael F. Downes (8)
10(x)	Retention Agreement dated March 23, 2004 with Alan J. Bedner (8)
10(xi)	Retention Agreement dated March 23, 2004 with John Kauchak (8)
10(xiii)	2002 Stock Option Plan (6)
10(xiv)	Second Amendment dated September 19, 2003 to Lease Agreement between Unity Bank and Clinton Unity Group (8)
10(xv)	Real Estate Purchase Agreement dated October 23, 2003 between Unity Bank and Premiere Development II, LLC (8)
10(xvi)	2004 Stock Bonus Plan (9)
10(xvii)	2006 Stock Option Plan (10)
10(xviii)	Third Amendment to Lease by and between Clinton Unity Group, LLC and Unity Bank dated July 31, 2009 (11)

13	Portion of Unity Bancorp. Inc. 2009 Annual Report to Shareholders
21	Subsidiaries of the Registrant
23.1	Consent of McGladrey & Pullen, LLP
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President, Chief Executive Officer, and Chief Financial Officer pursuant to Section 906

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- (1) Previously filed with the Securities and Exchange Commission as an Exhibit to the Registration Statement on Form S-4 (File No. 33-76392) and incorporated by reference herein.
 - (2) Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on July 22, 2002 and incorporated by reference herein.
 - (3) Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on April 4, 1997.
 - (4) Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on March 30, 1998.
 - (5) Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on April 2, 1999.
 - (6) Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on April 10, 2002.
 - (7) Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed March 26, 2003.
 - (8) Previously filed with the Securities and Exchange Commission as an Exhibit to the Annual Report on Form 10-K filed March 26, 2004.
 - (9) Previously filed with the Securities and Exchange Commission as an Exhibit to the Proxy Statement for the Annual Meeting of Shareholders filed on April 15, 2004.
 - (10) Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on April 27, 2006 and incorporated by reference herein.
 - (11) Previously filed with the Securities and Exchange Commission as an Exhibit to the Current Report on Form 8-K filed on August 4, 2009 and incorporated by reference herein.
- (c) Not applicable

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.

UNITY BANCORP, INC.

By: /s/ Alan J. Bedner ,
 Jr.
 Alan J. Bedner, Jr.
 Executive Vice President
 Chief Financial Officer

Date: March 18, 2010

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.

NAME	TITLE	DATE
/s/ David D. Dallas David D. Dallas	Chairman of the Board and Director	March 18, 2010
/s/ James A. Hughes James A. Hughes	President, Chief Executive Officer And Director	March 18, 2010
/s/ Alan J. Bedner, Jr. Alan J. Bedner, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	March 18, 2010
/s/ Raj Patel Raj Patel	Director	March 18, 2010
/s/ Dr. Mark S. Brody Dr. Mark S. Brody	Director	March 18, 2010
/s/ Robert H. Dallas, II Robert H. Dallas, II	Director	March 18, 2010
/s/ Peter E. Maricondo Peter E. Maricondo	Director	March 18, 2010
		March 18, 2010

/s/ Wayne Courtright
Wayne Courtright

Director

March 18, 2010

/s/ Charles S. Loring
Charles S. Loring

Director

March 18, 2010

/s/ Allen Tucker
Allen Tucker

Director

