

1ST CONSTITUTION BANCORP
Form 10-Q
November 10, 2016

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2016

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: 000-32891

1ST CONSTITUTION BANCORP

(Exact Name of Registrant as Specified in Its Charter)

New Jersey 22-3665653

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

2650 Route 130, P.O. Box 634, Cranbury, NJ 08512

(Address of Principal Executive Offices) (Zip Code)

(609) 655-4500

(Issuer's Telephone Number, Including Area Code)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a 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 October 31, 2016, there were 7,983,294 shares of the registrant's common stock, no par value, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

1ST Constitution Bancorp
Consolidated Balance Sheets
(Dollars in thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and Due From Banks	\$ 16,947	\$ 11,368
Federal Funds Sold/Short-Term Investments	—	—
Total cash and cash equivalents	16,947	11,368
Investment Securities:		
Available for sale, at fair value	103,114	91,422
Held to maturity (fair value of \$125,841 and \$127,157 at September 30, 2016 and December 31, 2015, respectively)	121,236	123,261
Total investment securities	224,350	214,683
Loans Held for Sale	10,416	5,997
Loans	749,436	682,121
Less- Allowance for loan losses	(7,486	) (7,560)
Net loans	741,950	674,561
Premises and Equipment, Net	10,760	11,109
Accrued Interest Receivable	2,855	2,853
Bank-Owned Life Insurance	22,048	21,583
Other Real Estate Owned	166	966
Goodwill and Intangible Assets	12,981	13,284
Other Assets	12,835	11,587
Total assets	\$ 1,055,308	\$ 967,991
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits		
Non-interest bearing	\$ 173,946	\$ 159,918
Interest bearing	653,116	626,839
Total deposits	827,062	786,757
Borrowings	97,099	58,896
Redeemable Subordinated Debt	18,557	18,557
Accrued Interest Payable	794	846
Accrued Expenses and Other Liabilities	7,849	6,975
Total liabilities	951,361	872,031
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 5,000,000 shares authorized, none issued	—	—
Common Stock, no par value; 30,000,000 shares authorized; 8,016,592 and 7,575,492 shares issued and 7,983,294 and 7,545,684 shares outstanding as of September 30, 2016 and December 31, 2015, respectively	71,394	70,845

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Retained earnings	32,420	25,589
Treasury Stock, 33,298 shares and 29,808 shares at September 30, 2016 and December 31, 2015, respectively	(368) (344)
Accumulated other comprehensive income (loss)	501	(130)
Total shareholders' equity	103,947	95,960
Total liabilities and shareholders' equity	\$ 1,055,308	\$ 967,991

The accompanying notes are an integral part of these financial statements.

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1ST Constitution Bancorp
Consolidated Statements of Income
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
INTEREST INCOME:				
Loans, including fees	\$9,489	\$ 9,527	\$26,314	\$ 27,054
Securities:				
Taxable	827	776	2,459	2,383
Tax-exempt	514	522	1,554	1,608
Federal funds sold and short-term investments	13	7	79	38
Total interest income	10,843	10,832	30,406	31,083
INTEREST EXPENSE:				
Deposits	1,051	921	2,989	2,765
Borrowings	197	159	498	438
Redeemable subordinated debentures	107	89	311	263
Total interest expense	1,355	1,169	3,798	3,466
Net interest income	9,488	9,663	26,608	27,617
(CREDIT) PROVISION FOR LOAN LOSSES	—	100	(300)	600
Net interest income after (credit) provision for loan losses	9,488	9,563	26,908	27,017
NON-INTEREST INCOME:				
Service charges on deposit accounts	185	186	558	615
Gain on sales of loans, net	876	783	2,525	3,278
Income on Bank-owned life insurance	113	144	414	420
Other income	586	314	1,392	1,231
Total non-interest income	1,760	1,427	4,889	5,544
NON-INTEREST EXPENSES:				
Salaries and employee benefits	4,532	4,373	13,138	13,037
Occupancy expense	1,006	963	2,946	3,121
Data processing expenses	314	326	941	951
FDIC insurance expense	105	160	328	530
Other real estate owned expenses	12	119	76	631
Other operating expenses	1,128	1,439	3,522	3,939
Total non-interest expenses	7,097	7,380	20,951	22,209
Income before income taxes	4,151	3,610	10,846	10,352
INCOME TAXES	1,456	1,148	3,616	3,315
Net income	\$2,695	\$ 2,462	\$7,230	\$ 7,037
NET INCOME PER COMMON SHARE:				
Basic	\$0.34	\$ 0.31	\$0.91	\$ 0.89
Diluted	\$0.33	\$ 0.30	\$0.89	\$ 0.87

WEIGHTED AVERAGE SHARES OUTSTANDING

Basic	7,974,323	7,920,192	7,954,212	7,893,719
Diluted	8,185,840	8,079,836	8,159,419	8,058,693

The accompanying notes are an integral part of these financial statements.

1ST Constitution Bancorp
Consolidated Statements of Comprehensive Income
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Net Income	\$2,695	\$2,462	\$7,230	\$7,037				
Other comprehensive income (loss):								
Unrealized holding gains (losses) on securities available for sale	(211	) 698	1,046	80				
Tax effect	77	(254	) (380	) (73)			
Net of tax amount	(134	) 444	666	7				
Pension liability	28	(73	) 62	19				
Tax effect	(11	) 29	(25	) (8)			
Net of tax amount	17	(44	) 37	11				
Reclassification adjustment for actuarial (gains) for unfunded pension liability								
Income ⁽¹⁾	(48	) (55	) (120	) (210)			
Tax effect ⁽²⁾	19	22	48	84				
Net of tax amount	(29	) (33	) (72	) (126)			
Total other comprehensive income (loss)	(146	) 367	631	(108)			
Comprehensive income	\$2,549	\$2,829	\$7,861	\$6,929				

The accompanying notes are an integral part of these financial statements.

(1)Included in salaries and employee benefits expense on the consolidated statements of income

(2)Included in income taxes on the consolidated statements of income

1ST Constitution Bancorp
 Consolidated Statements of Changes in Shareholders' Equity
 For the Nine Months Ended September 30, 2016 and 2015
 (Dollars in thousands)
 (Unaudited)

(Dollars in thousands)	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2015	\$61,448	\$25,730	\$ (316)	\$ 248	\$ 87,110
Exercise of stock options and issuance of share grants	(148)	—	331	—	183
Share-based compensation	483	—	—	—	483
Treasury stock purchased (23,791 shares)	—	—	(273)	—	(273)
5% Stock dividend declared March 2015 (358,851 shares)	3,994	(3,994)	—	—	—
Net income for the nine months ended September 30, 2015	—	7,037	—	—	7,037
Other comprehensive loss	—	—	—	(108)	(108)
Balance, September 30, 2015	\$65,777	\$28,773	\$ (258)	\$ 140	\$ 94,432
Balance, January 1, 2016	\$70,845	\$25,589	\$ (344)	\$ (130)	\$ 95,960
Exercise of stock options	19	—	—	—	19
Share-based compensation	530	—	—	—	530
Treasury stock purchased (2,000 shares)	—	—	(24)	—	(24)
Dividends on common stock (\$0.05 per share)	—	(399)	—	—	(399)
Net income for the nine months ended September 30, 2016	—	7,230	—	—	7,230
Other comprehensive income	—	—	—	631	631
Balance, September 30, 2016	\$71,394	\$32,420	\$ (368)	\$ 501	\$ 103,947

The accompanying notes are an integral part of these financial statements.

1ST Constitution Bancorp
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
OPERATING ACTIVITIES:		
Net income	\$7,230	\$7,037
Adjustments to reconcile net income to net cash provided by operating activities-		
(Credit) provision for loan losses	(300)	600
Provision for loss on other real estate owned	—	382
Depreciation and amortization	970	1,151
Net amortization of premiums and discounts on securities	864	622
Gains on sales of other real estate owned	(31)	—
Gains on sales of loans held for sale	(2,525)	(3,278)
Originations of loans held for sale	(55,090)	(112,980)
Proceeds from sales of loans held for sale	51,928	117,981
Income on Bank-owned life insurance	(414)	(420)
Share-based compensation expense	530	483
(Increase) decrease in accrued interest receivable	(2)	452
Decrease in other assets	829	373
Decrease in accrued interest payable	(52)	(154)
Decrease in accrued expenses and other liabilities	874	341
Net cash provided by operating activities	4,811	12,590
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(28,157)	(7,071)
Held to maturity	(16,591)	(7,578)
Proceeds from maturities and prepayments of securities -		
Available for sale	17,034	14,060
Held to maturity	18,432	29,861
Proceeds from Bank-owned life insurance benefits paid	248	—
Net purchase of restricted stock	(1,740)	(1,797)
Net increase in loans	(67,315)	(56,460)
Capital expenditures	(319)	(723)
Cost of improvement to OREO	(60)	—
Proceeds from sales of other real estate owned	1,033	1,367
Purchase of Bank-owned life insurance	(300)	—
Net cash used in investing activities	(77,735)	(28,341)
FINANCING ACTIVITIES:		
Exercise of stock options	19	183
Purchase of treasury stock	(24)	(273)
Cash dividends paid to shareholders	—	—
Net increase (decrease) in deposits	40,305	(23,919)
Net increase in borrowings	38,203	40,080
Net cash provided by financing activities	78,503	16,071
Increase in cash and cash equivalents	5,579	320

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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,368	14,545
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$16,947	\$14,865

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION

Cash paid during the period for -

Interest	\$3,850	\$3,620
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Income taxes	2,590	3,656
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Non-cash items: Transfer of loans to other real estate owned	142	966
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The accompanying notes are an integral part of these financial statements.

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1ST Constitution Bancorp
Notes To Consolidated Financial Statements
September 30, 2016
(Unaudited)

(1) Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements include 1ST Constitution Bancorp (the “Company”), its wholly-owned subsidiary, 1ST Constitution Bank (the “Bank”), and the Bank’s wholly-owned subsidiaries,^{§T1} Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., 204 South Newman Street Corp., and 249 New York Avenue, LLC. 1st Constitution Capital Trust II, a subsidiary of the Company, is not included in the Company’s consolidated financial statements, as it is a variable interest entity and the Company is not the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to conform to current year presentation. The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), including the instructions to Form 10-Q and Article 8 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company’s Form 10-K for the year ended December 31, 2015, filed with the SEC on March 22, 2016.

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

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2016 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

On December 18, 2015, the Board of Directors of the Company declared a five percent common stock dividend to common shareholders of record as of the close of business on January 14, 2016, which was paid on February 1, 2016. As appropriate, common shares and per common share data presented in the consolidated financial statements and the accompanying notes below have been adjusted to reflect the common stock dividend.

On September 15, 2016, the Board of Directors of the Company declared a cash dividend of \$0.05 per common share. The cash dividend was paid on October 21, 2016 to all shareholders of record as of the close of business on September 28, 2016. This action represented the first cash dividend declared by the Company on its common shares. The Company's Board of Directors determined that it was appropriate to initiate a quarterly cash dividend in light of the Company's strong financial condition, consistent level of net income, stable capital position and sound asset credit quality. The timing and amount of the payment of future cash dividends, if any, on the Company's common shares will be at the discretion of the Company's Board of Directors and will be determined after consideration of various factors, including the level of earnings, cash requirements, regulatory capital and financial condition.

(2) Net Income Per Common Share

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

Diluted net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding, as adjusted for the assumed exercise of dilutive common stock warrants and common stock options using the treasury stock method.

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per common share (EPS) calculations. Dilutive securities in the tables below exclude common stock options and warrants with exercise prices that exceed the average market price of the Company’s common stock during the periods presented. Inclusion of these common stock options and warrants would be anti-dilutive to the diluted earnings per common share calculation.

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2016		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	\$2,695	7,974,323	\$ 0.34
Effect of dilutive securities:			
Stock options and warrants		211,517	
Diluted EPS:			
Net income plus assumed conversion	\$2,695	8,185,840	\$ 0.33

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2015		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	\$2,462	7,920,192	\$ 0.31
Effect of dilutive securities:			
Stock options and warrants		159,644	
Diluted EPS:			
Net income plus assumed conversion	\$2,462	8,079,836	\$ 0.30

For the three months ended September 30, 2016 and 2015, 11,130 and 79,145 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share.

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2016		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	\$7,230	7,954,212	\$ 0.91
Effect of dilutive securities:			
Stock options and warrants		205,207	
Diluted EPS:			
Net income plus assumed conversion	\$7,230	8,159,419	\$ 0.89

(Dollars in thousands, except per share data)	Nine Months Ended September 30, 2015		
	Net Income	Weighted-average shares	Per share amount
Basic earnings per common share:			
Net income	\$7,037	7,893,719	\$ 0.89
Effect of dilutive securities:			
Stock options and warrants		164,974	
Diluted EPS:			
Net income plus assumed conversion	\$7,037	8,058,693	\$ 0.87

For the nine months ended September 30, 2016 and 2015, 20,060 and 57,135 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common share.

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(3) Investment Securities

Amortized cost, carrying value, gross unrealized gains and losses, and the fair value by security type are as follows:
(Dollars in thousands)

September 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U. S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	\$ 3,517	\$ 26	\$ —	\$ 3,543
Residential collateralized mortgage obligations- GSE	15,308	125	(39)	15,394
Residential mortgage backed securities – GSE	33,030	775	(31)	33,774
Obligations of state and political subdivisions	21,639	578	(13)	22,204
Trust preferred debt securities – single issuer	2,477	—	(283)	2,194
Corporate debt securities	24,988	243	(120)	25,111
Other debt securities	906	—	(12)	894
	\$ 101,865	\$ 1,747	\$ (498)	\$ 103,114

September 30, 2016	Amortized Cost	Other-Than- Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity-						
U. S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	4,081	—	4,081	29	—	4,110
Residential collateralized mortgage obligations – GSE	13,003	—	13,003	384	—	13,387
Residential mortgage backed securities – GSE	42,941	—	42,941	1,587	—	44,528
Obligations of state and political subdivisions	60,554	—	60,554	2,315	(10)	62,859
Trust preferred debt securities-pooled	657	(501)	156	303	—	459
Other debt securities	501	—	501	—	(3)	498
	\$ 121,737	\$ (501)	\$ 121,236	\$ 4,618	\$ (13)	\$ 125,841

December 31, 2015

(Dollars in thousands)

Available for sale-	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury securities and obligations of U.S. Government sponsored corporations ("GSE") and agencies	\$ 5,523	\$ —	\$ (42)	\$ 5,481
Residential collateralized mortgage obligations- GSE	8,255	68	(36)	8,287
Residential mortgage backed securities - GSE	32,279	541	(185)	32,635
Obligations of state and political subdivisions	21,125	365	(54)	21,436
Trust preferred debt securities-single issuer	2,474	—	(338)	2,136
Corporate debt securities	20,510	65	(153)	20,422

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Other debt securities	1,053	—	(28)	1,025
	\$ 91,219	\$ 1,039	\$ (836)	\$ 91,422

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December 31, 2015	Amortized Cost	Other-Than- Temporary Impairment Recognized In Accumulated Other Comprehensive Loss	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity- Residential collateralized mortgage obligations-GSE	13,630	—	13,630	404	—	14,034
Residential mortgage backed securities - GSE	47,718	—	47,718	928		