

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

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