

1ST CONSTITUTION BANCORP
Form 10-Q
August 14, 2014

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 June 30, 2014

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
(State of Other Jurisdiction
of Incorporation or Organization)

22-3665653
(I.R.S. Employer Identification
No.)

2650 Route 130, P.O. Box 634, Cranbury, NJ
(Address of Principal Executive Offices)

08512
(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 | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
- (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 August 12, 2014, there were 7,116,055 shares of the registrant’s common stock, no par value, outstanding.

1ST CONSTITUTION BANCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

1st Constitution Bancorp and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
CASH AND DUE FROM BANKS	\$ 23,149,148	\$ 69,267,345
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	-	11,426
Total cash and cash equivalents	23,149,148	69,278,771
INVESTMENT SECURITIES:		
Available for sale, at fair value	110,878,312	99,198,807
Held to maturity (fair value of \$159,434,845 and \$153,629,773 at June 30, 2014 and December 31, 2013, respectively)	155,318,690	152,816,815
Total investment securities	266,197,002	252,015,622
LOANS HELD FOR SALE	9,877,863	10,923,689
LOANS	635,459,722	373,336,082
Less- Allowance for loan losses	(7,418,379)	(7,038,571)
Net loans	628,041,343	366,297,511
PREMISES AND EQUIPMENT, net	12,189,136	10,043,505
ACCRUED INTEREST RECEIVABLE	3,161,963	2,542,602
BANK-OWNED LIFE INSURANCE	20,932,291	16,183,574
OTHER REAL ESTATE OWNED	1,860,000	2,136,341
GOODWILL AND INTANGIBLE ASSETS	13,614,963	4,889,575
OTHER ASSETS	6,946,522	8,013,897
Total assets	\$ 985,970,231	\$ 742,325,087
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits		
Non-interest bearing	\$ 166,866,851	\$ 121,891,752
Interest bearing	653,000,478	516,660,278
Total deposits	819,867,329	638,552,030
BORROWINGS	59,888,511	10,000,000
REDEEMABLE SUBORDINATED DEBENTURES	18,557,000	18,557,000
ACCRUED INTEREST PAYABLE	904,892	883,212
ACCRUED EXPENSES AND OTHER LIABILITIES	5,078,769	5,974,531
Total liabilities	904,296,501	673,966,773
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 5,000,000 shares authorized, none issued	-	-
Common Stock, no par value; 30,000,000 shares authorized; 7,136,784 and 6,033,683 shares issued and 7,116,055 and 6,016,845 shares outstanding at June 30, 2014 and December 31, 2013, respectively	60,937,366	49,403,450
Retained earnings	21,576,175	21,374,381

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Treasury Stock, 20,729 shares and 16,838 shares at June 30, 2014 and December 31, 2013, respectively	(211,727)	(171,883)
Accumulated other comprehensive (loss)	(628,084)	(2,247,634)
Total shareholders' equity	81,673,730	68,358,314
Total liabilities and shareholders' equity	\$ 985,970,231	\$ 742,325,087

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

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1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
INTEREST INCOME:				
Loans, including fees	\$ 7,870,260	\$ 5,645,259	\$ 14,108,699	\$ 11,617,454
Securities:				
Taxable	1,059,160	901,711	2,180,744	1,838,796
Tax-exempt	588,750	545,620	1,169,731	1,058,498
Federal funds sold and short-term investments	45,417	89,662	100,708	139,342
Total interest income	9,563,587	7,182,252	17,559,882	14,654,090
INTEREST EXPENSE:				
Deposits	972,362	869,598	1,871,093	1,825,934
Borrowings	127,839	104,254	243,417	207,527
Redeemable subordinated debentures	85,673	87,771	170,780	175,644
Total interest expense	1,185,874	1,061,623	2,285,290	2,209,105
Net interest income	8,377,713	6,120,629	15,274,592	12,444,985
PROVISION FOR LOAN LOSSES	4,099,998	236,666	4,599,996	236,666
Net interest income after provision for loan losses	4,277,715	5,883,963	10,674,596	12,208,319
NON-INTEREST INCOME:				
Service charges on deposit accounts	267,235	221,604	486,351	444,670
Gain on sales of loans	267,155	479,146	1,006,736	1,210,855
Income on Bank-owned life insurance	148,987	119,758	278,138	232,366
Other income	576,655	627,351	1,125,789	1,168,531
Total non-interest income	1,260,032	1,447,859	2,897,014	3,056,422
NON-INTEREST EXPENSE:				
Salaries and employee benefits	3,684,723	3,045,241	7,272,628	6,398,104
Occupancy expense	838,895	622,499	1,665,090	1,300,305
Data processing expense	311,760	294,306	627,809	595,688
Other real estate owned expenses	98,609	48,557	140,041	594,062
Merger related expenses	109,430	-	1,532,153	-
FDIC insurance expense	184,631	15,000	334,631	34,687
Other operating expenses	1,477,767	1,136,697	2,479,488	2,322,422
Total non-interest expenses	6,705,815	5,162,300	14,051,840	11,245,268
Income (loss) before income taxes	(1,168,068)	2,169,522	(480,230)	4,019,473
INCOME TAXES	(728,150)	612,492	(682,024)	1,137,125
Net income (loss)	\$ (439,918)	\$ 1,557,030	\$ 201,794	\$ 2,882,348
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	\$ (0.06)	\$ 0.26	\$ 0.03	\$ 0.48
Diluted	\$ (0.06)	\$ 0.25	\$ 0.03	\$ 0.47

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

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1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net Income (loss)	\$ (439,918)	\$ 1,557,030	\$ 201,794	\$ 2,882,348
Other comprehensive income (loss) :				
Unrealized gains (losses) on securities available for				
sale	1,066,459	(3,833,028)	2,281,660	(4,614,989)
Tax effect	(387,844)	1,353,848	(758,780)	1,702,774
Net of tax amount	678,615	(2,479,180)	1,522,880	(2,912,215)
Realized loss on securities available for sale				
Tax effect	2,516	-	2,516	-
Net of tax amount	(1,006)	-	(1,006)	-
Net of tax amount	1,510	-	1,510	-
Pension liability				
Tax effect	95,335	63,266	158,601	66,486
Net of tax amount	(38,135)	(25,307)	(63,441)	(26,602)
Net of tax amount	57,200	37,959	95,160	39,884
Total other comprehensive income (loss)	737,325	(2,441,221)	1,619,550	(2,872,331)
Comprehensive income (loss)	\$ 297,407	\$ (884,191)	\$ 1,821,344	\$ 10,017

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

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1st Constitution Bancorp and Subsidiaries
 Consolidated Statements of Changes in Shareholders' Equity
 For the Six Months Ended June 30, 2014 and 2013
 (Unaudited)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance, January 1, 2013	\$48,716,032	\$15,594,293	\$(61,086)	\$ 804,293	\$ 65,053,532
Exercise of stock options and issuance of shares under employee benefit program (23,233 shares)	219,783				219,783
Share-based compensation	50,568				50,568
Treasury stock purchased (6,440 shares)			(58,028)		(58,028)
Net income for the six month ended June 30, 2013		2,882,348			2,882,348
Other comprehensive (loss)				(2,872,331)	(2,872,331)
Balance, June 30, 2013	\$48,986,383	\$18,476,641	\$(119,114)	\$ (2,068,038)	\$ 65,275,872
Balance, January 1, 2014	\$49,403,450	\$21,374,381	\$(171,883)	\$ (2,247,634)	\$ 68,358,314
Exercise of stock options and issuance of shares under employee benefit program (35,600 shares)	302,850				302,850
Share-based compensation	70,366				70,366
Treasury stock purchased (3,891 shares)			(39,844)		(39,844)
Acquisition of Rumson-Fair Haven Bank and Trust Company (1,019,223 shares)	11,160,700				11,160,700
Net income for the six months ended June 30, 2014		201,794			201,794
Other comprehensive income				1,619,550	1,619,550
Balance June 30, 2014	\$60,937,366	\$21,576,175	\$(211,727)	\$ (628,084)	\$ 81,673,730

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

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1st Constitution Bancorp and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2014	2013
OPERATING ACTIVITIES:		
Net income	\$ 201,794	\$ 2,882,348
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for loan losses	4,599,996	236,666
Provision for loss on other real estate owned	-	662,918
Depreciation and amortization	880,566	539,640
Net amortization of premiums and discounts on securities	546,824	613,720
Loss on sales of securities held for sale	2,516	-
Gains on sales of other real estate owned	(21,012)	(291,452)
Gains on sales of loans held for sale	(1,006,736)	(1,210,855)
Originations of loans held for sale	(39,760,548)	(83,349,024)
Proceeds from sales of loans held for sale	41,813,110	92,285,028
Income on Bank – owned life insurance	(278,138)	(232,366)
Share-based compensation expense	70,366	267,958
(Increase) decrease in accrued interest receivable	(22,749)	317,907
Decrease in other assets	1,196,128	1,270,240
Decrease in accrued interest payable	(125,694)	(114,674)
(Decrease) increase in accrued expenses and other liabilities	(1,414,957)	305,763
Net cash provided by operating activities	6,681,466	14,183,817
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	-	(15,947,558)
Held to maturity	(14,229,098)	(10,839,022)
Proceeds from maturities and prepayments of securities -		
Available for sale	14,315,647	15,257,223
Held to maturity	11,534,177	16,295,574
Proceeds from sales of securities available for sale	5,957,188	-
Net (increase) decrease in loans	(122,887,249)	110,901,189
Capital expenditures	(111,489)	(113,402)
Net cash received in the acquisition	21,375,071	-
Proceeds from sales of other real estate owned	230,949	2,653,518
Net cash (used in) provided by investing activities	(83,814,804)	118,207,522
FINANCING ACTIVITIES:		
Issuance of vested shares	302,850	219,783
Purchase of Treasury Stock	(39,844)	(58,028)
Net decrease in demand, savings and time deposits	(8,169,253)	(4,089,641)
Net increase (decrease) in borrowings	38,909,962	(32,400,000)
Net cash provided by (used in) financing activities	31,003,715	(36,327,886)
(Decrease) increase in cash and cash equivalents	(46,129,623)	96,063,453
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	69,278,771	14,044,921
CASH AND CASH EQUIVALENTS		

AT END OF YEAR	\$	23,149,148	\$	110,108,374
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION				
Cash paid during the period for -				
Interest	\$	2,410,984		2,323,779
Income taxes		596,223		1,153,000
Non-cash investing activities				
Real estate acquired in full satisfaction of loans in foreclosure	\$	-		2,311,225
Acquisition of Rumson-Fair Haven Bank and Trust Company				
Noncash assets acquired:				
Investment securities available for sale	\$	30,024,458		
Loans		143,714,377		
Accrued interest receivable		596,612		
Premises and equipment, net		2,551,939		
Goodwill		7,698,427		
Core deposit intangible		1,188,836		
Bank-owned life insurance		4,470,579		
Other assets		885,576		
		191,130,804		
Liabilities assumed:				
Deposits		189,490,005		
Advances from FHLB		11,030,000		
Other liabilities		825,170		
		201,345,175		
Common stock issued as consideration	\$	11,160,700		

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

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1st Constitution Bancorp and Subsidiaries
Notes To Consolidated Financial Statements
June 30, 2014 (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, 1st Constitution Investment Company of New Jersey, Inc., FCB Assets Holdings, Inc., 1st Constitution Title Agency, LLC, 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 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, 2013, filed with the SEC on March 31, 2014.

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 June 30, 2014 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.

(2) Acquisition of Rumson-Fair Haven Bank and Trust Company

On February 7, 2014, the Company completed its acquisition of Rumson-Fair Haven Bank and Trust Company, a New Jersey state commercial bank (“Rumson”), which merged with and into the Bank, with the Bank as the surviving entity. The merger agreement among the Company, the Bank and Rumson (the “Merger Agreement”) provided that the shareholders of Rumson would receive, at their election, for each outstanding share of Rumson common stock that they own at the effective time of the merger, either 0.7772 shares of the Company common stock or \$7.50 in cash or a combination thereof, subject to proration as described in the Merger Agreement, so that 60% of the aggregate merger consideration consisted of cash and 40% consisted of shares of the Company’s common stock. The Company issued an aggregate of 1,019,223 shares of its common stock and paid \$14.8 million in cash in the transaction.

The merger was accounted for under the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at preliminary estimated fair values as of the acquisition date. Rumson’s results of operations have been included in the Company’s Consolidated Statements of Income since February 7, 2014.

The assets acquired and liabilities assumed in the merger were recorded at their estimated fair values based on management’s best estimates using information available at the date of the merger, including the use of a third party

valuation specialist. The fair values are preliminary estimates and subject to adjustment for up to one year after the closing date of the merger. The following table summarizes the estimated fair value of the acquired assets and liabilities.

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(\$ in thousands)	Amount
Consideration paid:	
Company stock issued	\$ 11,161
Cash payment	14,770
Total consideration paid	25,931
Recognized amounts of identifiable assets and liabilities assumed at fair value:	
Cash and cash equivalents	36,045
Short-term investments	100
Securities available for sale	30,024
Loans	143,714
Premises and equipment, net	2,552
Identifiable intangible assets	1,189
Bank-owned life insurance	4,471
Accrued interest receivable and other assets	1,483
Deposits	(189,490)
Borrowings	(11,030)
Other liabilities	(825)
Total identifiable assets	18,233
Goodwill	\$ 7,698

Accounting Standards Codification (“ASC”) Topic 805-10 provides that if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer also shall recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period may not exceed one year from the acquisition date. As of June 30, 2014, independent appraisals of branch office real estate and leases had not been completed and the fair value of these assets and liabilities had not been determined.

Loans and leases acquired in the Rumson acquisition were recorded at fair value and subsequently accounted for in accordance with ASC Topic 310, and there was no carryover of Rumson’s allowance for loan losses. The fair values of loans acquired from Rumson were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted for estimated future credit losses and the rate of prepayments. Projected cash flows were then discounted to present value using a risk-adjusted market rate for similar loans.

At the acquisition date, the Company recorded \$141.1 million of loans without evidence of credit quality deterioration and \$2.6 million of loans with evidence of credit quality deterioration. The following table summarizes the composition of the loans acquired and recorded at fair value.

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(\$ in thousands)	At February 7, 2014		
	Loans acquired with no credit quality deterioration	Loans acquired with credit quality deterioration	Total
Commercial			
Construction	\$ 11,920	\$ -	\$ 11,920
Commercial Real Estate	62,398	1,832	64,230
Commercial Business	18,086	368	18,454
Residential Real Estate	32,743	180	32,923
Consumer	15,953	234	16,187
Total	\$ 141,100	\$ 2,614	\$ 143,714

The following is a summary of the loans acquired with evidence of deteriorated credit quality in the Rumson acquisition as of the closing date.

(\$ in thousands)	Acquired Credit Impaired Loans
Contractually required principal and interest at acquisition	\$ 4,451
Contractual cash flows not expected to be collected (non-accretable difference)	1,543
Expected cash flows at acquisition	2,908
Interest component of expected cash flows (accretable difference)	294
Fair value of acquired loans	\$ 2,614

The core deposit intangible totaled \$1.2 million and is being amortized over its estimated useful life of approximately 10 years using an accelerated method. The goodwill will be evaluated annually for impairment. The goodwill is not deductible for tax purposes.

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The following table presents the projected amortization of the core deposits intangible for each period presented:

	(\$ in thousands)
2014	\$216
2015	195
2016	173
2017	151
2018	130
Thereafter	324
	\$1,189

The fair values of deposit liabilities with no stated maturities, such as checking, money market and savings accounts, were assumed to equal the carrying amounts since these deposits are payable on demand. The fair values of certificates of deposits and IRAs represent the present value of contractual cash flows discounted at market rates for similar certificates of deposit.

Direct costs related to the acquisition were expensed as incurred. During the six months ended June 30, 2014, the Company incurred \$1.5 million of merger and acquisition integration-related expenses, which have been separately stated in the Company's Consolidated Statements of Income.

Supplemental Pro Forma Financial Information

The following table presents financial information regarding the former Rumson operations included in our Consolidated Statements of Income from the date of the acquisition, February 7, 2014, through June 30, 2014 under the column "Actual from acquisition date to June 30, 2014." In addition, the table provides unaudited condensed pro forma financial information assuming that the Rumson acquisition had been completed as of January 1, 2013. In the table below, merger-related expenses of \$1.8 million were excluded from pro forma non-interest expenses for the six months ended June 30, 2014. Income taxes were also adjusted to exclude income tax benefits of \$505,000 related to the merger expenses for the six months ended June 30, 2014.

The table below has been prepared for comparative purposes only and is not necessarily indicative of the actual results that would have been attained had the acquisition occurred as of the beginning of the periods presented, nor is it indicative of future results. Furthermore, the unaudited pro forma financial information does not reflect management's estimate of any revenue-enhancing opportunities nor anticipated cost savings that may have occurred as a result of the integration and consolidation of Rumson's operations. The pro forma financial information reflects adjustments related to certain purchase accounting fair value adjustments; amortization of core deposit and other intangibles; and related income tax effects.

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	Actual from acquisition date to June 30, 2014	Pro Forma for the six months ended June 30, 2014	Pro Forma for the six months ended June 30, 2013
	(in thousands, except per share amounts)		
Net interest income	\$ 2,809	\$ 16,074	\$ 16,258
Non-interest income	123	2,946	3,572
Non-interest expenses	1,120	13,242	14,020
Income taxes (benefit)	724	(61)	1,625
Net income	1,088	1,239	3,778
Earnings per share – diluted		\$ 0.18	\$ 0.53

(3) 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 potential common stock warrants, and common stock options, using the treasury stock method. For periods when a net loss is incurred, there is no dilutive effect of share equivalents. Accordingly, these shares are not included in the calculation of diluted earnings per share.

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.

	Three Months Ended June 30, 2014		
	Net (loss)	Weighted- average shares	Per share amount
Basic earnings per common share:			
Net (loss)	\$(439,918)	7,113,717	\$(0.06)
Effect of dilutive securities:			
Stock options and warrants		-	
Diluted EPS:			
Net (loss) plus assumed conversion	\$(439,918)	7,113,717	\$(0.06)

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	Three Months Ended June 30, 2013		
	Net Income	Weighted- average shares	Per share amount
Basic earnings per common share:			
Net income	\$1,557,030	5,992,743	\$0.26
Effect of Dilutive Securities:			
Stock options and warrants		150,867	
Diluted EPS:			
Net income plus assumed conversions	\$1,557,030	6,143,610	\$0.25

	Six Months Ended June 30, 2014		
	Net Income	Weighted- average shares	Per share amount
Basic earnings per common share:			
Net income	\$201,794	6,958,901	\$0.03
Effect of Dilutive Securities:			
Stock options and warrants		120,293	
Diluted EPS:			
Net income plus assumed conversions	\$201,794	7,079,194	\$0.03

	Six Months Ended June 30, 2013		
	Net Income	Weighted- average shares	Per share amount
Basic earnings per common share:			
Net income	\$2,882,348	5,944,633	\$0.48
Effect of Dilutive Securities:			
Stock options and warrants		148,498	
Diluted EPS:			
Net income plus assumed conversions	\$2,882,348	6,093,131	\$0.47

For the three months and six months ended June 30, 2014 and 2013, 247,298 and 90,296 options, respectively, were anti-dilutive and were not included in the computation of diluted earnings per common shares.

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(4) Investment Securities

Amortized cost, gross unrealized gains and losses, and the estimated fair value by security type are as follows:

June 30, 2014	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	\$ 11,430,419	\$ -	\$ (525,144)	\$ 10,905,275
Residential collateralized mortgage obligations – GSE	4,016,935	104,804	(35,909)	4,085,830
Residential collateralized mortgage obligations – non-GSE	2,774,669	47,862	(6,211)	2,816,320
Residential mortgage backed securities – GSE	29,268,826	966,555	(261,125)	29,974,256
Obligations of State and Political subdivisions	22,047,926	225,727	(1,264,271)	21,009,382
Trust preferred debt securities – single issuer	2,470,301	-	(321,701)	2,148,600
Corporate debt securities	36,036,784	404,998	(44,033)	36,397,749
Restricted stock	3,515,900	-	-	3,515,900
Mutual fund	25,000	-	-	25,000
	\$ 111,586,760	\$ 1,749,946	\$ (2,458,394)	\$ 110,878,312

June 30, 2014	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	\$ 501,773	\$ -	\$ 501,773	\$ 1,572	\$ -	\$ 503,345
	13,242,024	-	13,242,024	500,621	-	13,742,645

Residential collateralized mortgage obligations – GSE						
Residential collateralized mortgage obligations – non-GSE	9,679,334	-	9,679,334	346,640		10,025,974
Residential mortgage backed securities – GSE	61,339,357	-	61,339,357	1,404,295	(134,022)	62,609,630
Obligations of State and Political subdivisions	69,900,076	-	69,900,076	2,023,380	(404,000)	71,519,456
Trust preferred debt securities-pooled	656,661	(500,944)	155,717	376,593	-	532,310
Corporate debt securities	500,409	-	500,409	1,076	-	501,485
	\$ 155,819,634	\$ (500,944)	\$ 155,318,690	\$ 4,654,177	\$ (538,022)	\$ 159,434,845

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December 31, 2013	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	\$ 22,386,761	\$ 33,213	\$ (910,274)	\$ 21,509,700
Residential collateralized mortgage obligations – GSE	3,547,404	134,388	-	3,681,792
Residential collateralized mortgage obligations – non-GSE	2,782,843	52,227	(8,674)	2,826,396
Residential mortgage backed securities – GSE	31,532,051	872,169	(438,273)	31,965,947
Obligations of State and Political subdivisions	22,206,959	149,959	(2,710,874)	19,646,044
Trust preferred debt securities-single issuer	2,468,839	-	(455,739)	2,013,100
Corporate debt securities	16,228,474	318,590	(29,336)	16,517,728
Restricted stock	1,013,100			