

BCB BANCORP INC
Form 10-Q
November 08, 2018

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, 2018

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: 0-50275

BCB Bancorp, Inc.

(Exact name of registrant as specified in its charter)

New Jersey	26-0065262
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	I.D. No.)
104-110 Avenue C Bayonne, New Jersey	07002

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(Address of principal executive offices) (Zip Code)

(201) 823-0700

(Registrant's telephone number, including area code)

Not Applicable

(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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "accelerated filer, larger accelerated filer, non-accelerated filer, smaller reporting company, or emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 1st, 2018, BCB Bancorp, Inc., had 15,801,875 shares of common stock, no par value, outstanding.

BCB BANCORP INC. AND SUBSIDIARIES

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PART I. CONSOLIDATED FINANCIAL INFORMATION

ITEM I. CONSOLIDATED FINANCIAL STATEMENTS

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, Except Share and Per Share Data, Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and amounts due from depository institutions	\$ 32,459	\$ 16,460
Interest-earning deposits	174,251	107,775
Total cash and cash equivalents	206,710	124,235
Interest-earning time deposits	980	980
Debt securities available for sale	119,811	114,295
Equity investments	8,052	8,294
Loans held for sale	1,772	1,295
Loans receivable, net of allowance for loan losses of \$21,504 and \$17,375 respectively	2,225,001	1,643,677
Federal Home Loan Bank of New York stock, at cost	14,755	10,211
Premises and equipment, net	20,392	18,768
Accrued interest receivable	8,635	6,153
Other real estate owned	1,232	532
Deferred income taxes	11,607	5,144
Goodwill	5,223	-
Other assets	13,698	9,253
Total Assets	\$ 2,637,868	\$ 1,942,837

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Non-interest bearing deposits	\$ 276,998	\$ 201,043
Interest bearing deposits	1,839,626	1,368,327
Total deposits	2,116,624	1,569,370
FHLB advances	275,800	185,000
Subordinated debt	36,519	4,124
Other liabilities and accrued interest payable	13,162	7,889
Total Liabilities	2,442,105	1,766,383

STOCKHOLDERS' EQUITY

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Preferred stock: \$0.01 par value, 10,000,000 shares authorized; issued and outstanding 7,807 shares of series C 6%, series D 4.5%, (liquidation value \$10,000 per share) and series F 6% (liquidation value \$1,000 per share) noncumulative perpetual preferred stock at September 30, 2018 and 1,342 shares of series C 6% and series D 4.5% (liquidation value \$10,000 per share) noncumulative perpetual preferred stock at December 31, 2017	-	-
Additional paid-in capital preferred stock	19,706	13,241
Common stock: no par value; 20,000,000 shares authorized; issued 18,313,476 and 17,572,942 at September 30, 2018 and December 31, 2017, respectively, outstanding 15,782,713 shares and 15,042,179 shares, at September 30, 2018 and December 31, 2017, respectively	-	-
Additional paid-in capital common stock	175,970	164,230
Retained earnings	35,693	31,241
Accumulated other comprehensive (loss)	(6,490)	(3,142)
Treasury stock, at cost, 2,530,763 shares at September 30, 2018 and December 31, 2017	(29,116)	(29,116)
Total Stockholders' Equity	195,763	176,454
 Total Liabilities and Stockholders' Equity	 \$ 2,637,868	 \$ 1,942,837

See accompanying notes to unaudited consolidated financial statements

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, Except for Per Share Amounts, Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Loans, including fees	\$ 26,019	\$ 18,399	\$ 69,588	\$ 53,967
Mortgage-backed securities	827	581	2,363	1,712
Municipal bonds and other debt	116	113	416	377
FHLB stock and other interest earning assets	1,009	313	2,242	874
Total interest income	27,971	19,406	74,609	56,930
Interest expense:				
Deposits:				
Demand	1,130	700	2,902	2,050
Savings and club	116	100	318	299
Certificates of deposit	4,591	2,284	10,726	6,437
	5,837	3,084	13,946	8,786
Borrowings	2,054	748	4,153	2,902
Total interest expense	7,891	3,832	18,099	11,688
Net interest income	20,080	15,574	56,510	45,242
Provision for loan losses	907	511	4,309	1,785
Net interest income after provision for loan losses	19,173	15,063	52,201	43,457
Non-interest income:				
Fees and service charges	1,092	749	2,773	2,383
Gain on sales of loans	738	540	1,897	1,611
Loss on bulk sale of impaired loans held in portfolio	-	-	(24)	-
Gain on sales of other real estate owned	14	222	4	1,570
Gain on sale of investment securities	-	97	-	97
Unrealized loss on equity investments	(82)	-	(242)	-
Other	90	25	2,393	307
Total non-interest income	1,852	1,633	6,801	5,968
Non-interest expense:				
Salaries and employee benefits	7,156	5,925	20,548	17,893
Occupancy and equipment	2,490	2,038	7,028	6,185
Data processing and service fees	942	703	2,499	2,034
Professional fees	437	491	1,475	2,237
Director fees	192	198	594	576

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Regulatory assessments	419	318	948	1,010
Advertising and promotional	129	117	314	375
Other real estate owned, net	22	9	213	64
Merger related costs	119	-	2,303	-
Other	2,485	1,500	6,460	4,635
Total non-interest expense	14,391	11,299	42,382	35,009
Income before income tax provision	6,634	5,397	16,620	14,416
Income tax provision	2,040	2,180	5,081	5,773
Net Income	\$ 4,594	\$ 3,217	\$ 11,539	\$ 8,643
Preferred stock dividends	263	166	691	449
Net Income available to common stockholders	\$ 4,331	\$ 3,051	\$ 10,848	\$ 8,194
Net Income per common share-basic and diluted				
Basic	\$ 0.27	\$ 0.25	\$ 0.70	\$ 0.71
Diluted	\$ 0.27	\$ 0.25	\$ 0.69	\$ 0.70
Weighted average number of common shares outstanding				
Basic	15,789	12,142	15,482	11,572
Diluted	15,896	12,226	15,609	11,664

See accompanying notes to unaudited consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands, Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income	\$ 4,594	\$ 3,217	\$ 11,539	\$ 8,643
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on available-for-sale debt securities:				
Unrealized holding (losses) gains arising during the period	(845)	496	(4,189)	2,833
Tax Effect	155	(203)	967	(1,157)
Net of Tax Effect	(690)	293	(3,222)	- 1,676
Other comprehensive (loss) income	(690)	293	(3,222)	1,676
Comprehensive income	\$ 3,904	\$ 3,510	\$ 8,317	\$ 10,319

See accompanying notes to unaudited consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

(In thousands, Except Share and Per Share Data, Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2017	\$ -	\$ -	\$ 177,471	\$ 31,241	\$ (29,116)	\$ (3,142)	\$ 176,454
Acquisition of IA Bancorp	-	-	17,405	-	-	-	17,405
Exercise of Stock Options (200 shares)	-	-	2	-	-	-	2
Stock-based compensation expense	-	-	230	-	-	-	230
Dividends payable on Series C 6%, Series D 4.5%, and Series F 6% noncumulative perpetual preferred stock	-	-	-	(691)	-	-	(691)
Cash dividends on common stock (\$0.14 per share declared)	-	-	-	(6,275)	-	-	(6,275)
Dividend Reinvestment Plan	-	-	247	(247)	-	-	-
Stock Purchase Plan	-	-	321	-	-	-	321
Net income	-	-	-	11,539	-	-	11,539
Reclassification of unrealized gains on AFS equity securities	-	-	-	126	-	(126)	-
Other comprehensive loss	-	-	-	-	-	(3,222)	(3,222)
	\$ -	\$ -	\$ 195,676	\$ 35,693	\$ (29,116)	\$ (6,490)	\$ 195,763

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Balance at September 30,
2018

	Preferred Stock	Common Stock	Additional	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016	\$ -	\$ -	\$ 135,881	\$ 28,159	\$ (29,103)	\$ (3,856)	\$ 131,081
Issuance of Common Stock			42,759				42,759
Redemption of Series A and B Preferred Stock	-	-	(11,720)	-	-	-	(11,720)
Issuance of Series D Preferred Stock	-	-	9,497	-	-	-	9,497
Exercise of Stock Options (200 shares)	-	-	2	-	-	-	2
Stock-based compensation expense	-	-	126	-	-	-	126
Treasury stock purchases	-	-	-	-	(13)	-	(13)
Dividends payable on Series C 6% and Series D 4.5% noncumulative perpetual preferred stock	-	-	-	(449)	-	-	(449)
Cash dividends on common stock (\$0.14 per share declared)	-	-	-	(4,519)	-	-	(4,519)
Dividend Reinvestment Plan	-	-	221	(221)	-	-	-
Stock Purchase Plan	-	-	485	-	-	-	485
Net income	-	-	-	8,643	-	-	8,643
Other comprehensive income	-	-	-	-	-	1,676	1,676

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Balance at September 30, 2017 \$ - \$ - \$ 177,251 \$ 31,613 \$ (29,116) \$ (2,180) \$ 177,568

See accompanying notes to unaudited consolidated financial statements.

BCB BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands, Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities :		
Net Income	\$ 11,539	\$ 8,643
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	2,039	1,927
Amortization and accretion, net	(2,191)	(1,013)
Provision for loan losses	4,309	1,785
Deferred income tax (benefit)	(284)	2,314
Loans originated for sale	(17,320)	(19,371)
Proceeds from sales of loans	18,740	22,651
Gain on sales of loans originated for sale	(1,897)	(1,611)
Gains on sales of other real estate owned	(4)	(1,570)
Gains on sales of securities available for sale	-	(97)
Fair value adjustment of OREO	101	-
Loss on equity investments	242	-
Loss on bulk sale of impaired loans held in portfolio	24	-
Stock-based compensation expense	230	126
Increase in interest receivable	(1,870)	(235)
(Increase) decrease in other assets	(2,637)	92
Increase (decrease) in accrued interest payable	1,132	(209)
Increase in other liabilities	1,376	311
Net Cash Provided by Operating Activities	13,529	13,743
Cash flows from investing activities:		
Proceeds from calls on securities available for sale	20,286	22,423
Purchases of securities available for sale	(16,353)	(46,298)
Proceeds from sales of other real estate owned	502	4,813
Proceeds from bulk sale of impaired loans held	250	-
Proceeds from sales of securities available for sale	-	21,165
Net increase in loans receivable	(401,888)	(135,657)
Additions to premises and equipment	(829)	(1,804)
(Purchase) Redemption of Federal Home Loan Bank of New York stock	(3,381)	1,210
Cash acquired in acquisition	7,597	-
Cash paid in acquisition	(2,550)	-
Net Cash Used In Investing Activities	(396,366)	(134,148)
Cash flows from financing activities:		
Net increase in deposits	368,818	153,943
Proceeds from Federal Home Loan Bank of New York advances	175,800	38,000
Repayments of Federal Home Loan Bank of New York advances	(105,000)	(55,000)

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Net change in short-term debt	-	(20,000)
Purchases/adjustments of treasury stock	-	(13)
Cash dividends paid on common stock	(6,275)	(4,519)
Cash dividends paid on preferred stock	(691)	(449)
Net proceeds from issuance of common stock	321	43,244
Net proceeds from issuance of preferred stock	-	9,497
Net payment on redemption of preferred stock	-	(11,720)
Net proceeds from issuance of subordinated debt	32,337	-
Exercise of stock options	2	2
Net Cash Provided by Financing Activities	465,312	152,985
Net Increase In Cash and Cash Equivalents	82,475	32,580
Cash and Cash Equivalents-Beginning	124,235	65,038
Cash and Cash Equivalents-Ending	\$ 206,710	\$ 97,618
Supplementary Cash Flow Information:		
Cash paid during the year for:		
Income taxes	\$ 6,706	\$ 4,285
Interest	\$ 16,968	\$ 11,898
Non-cash items:		
Transfer of loans to other real estate owned	\$ 972	\$ 1,128

See accompanying notes to unaudited consolidated financial statements

BCB Bancorp Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of BCB Bancorp, Inc. (the “Company”) and the Company’s wholly owned subsidiaries, BCB Community Bank (the “Bank”), BCB Holding Company Investment Company, BCB New York Asset Management, Inc. and Pamrapo Service Corporation. The Company’s business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X and, therefore, do not necessarily include all information that would be included in audited consolidated financial statements. The information furnished reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of consolidated financial condition and results of operations. All such adjustments are of a normal recurring nature. These results are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2018 or any other future period. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statement of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes for the year ended December 31, 2017, which are included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission. In preparing these consolidated financial statements, the Company evaluated the events and transactions that occurred between September 30, 2018, and the date these consolidated financial statements were issued.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one

year. The scope of ASC 606 excludes net interest income and other revenues associated with financial assets and liabilities, including loans, leases, securities and derivatives, which would then exclude the majority of the Company's revenues. However, the recognition and measurement of certain non-interest income items such as gain on sale of other real estate owned and deposit-related fees, could be affected by ASC 606. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. Implementation of the guidance did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will supersede the current lease requirements in Topic 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of income. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new guidance will be effective for the Company in 2019. Once effective, the standard will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The Company is currently assessing the impacts this new standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. ASU 2016-13 requires entities to report "expected" credit losses on financial instruments and other commitments to extend credit rather than the current "incurred loss" model. These expected credit losses for financial assets held at the reporting date are to be based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU will also require enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements. The amendments are effective for the Company in 2020. The Company has begun evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements and results of operations. The effect of this change cannot be ascertained at this point, and will depend upon factors including asset components, asset quality and market conditions at the adoption date.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this update require that an entity account for the effects of a modification unless the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The Company adopted ASU 2017-09 on a prospective basis in January 2018. Due to prospective application, the impact on the Company's consolidated financial statements will be dependent upon the terms of future modifications.

In March, 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. ASU 2017-08 was issued to enhance the accounting for the amortization of premiums for purchased callable debt securities. This amendment requires that the amortization of the premium be shortened to the earliest call date. The Company adopted ASU 2017-08 as of

January 1, 2018 with no effect on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments- Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance amends existing guidance to improve accounting standards for financial instruments including clarification and simplification of accounting and disclosure requirements and the requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. These amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company recorded a cumulative effect adjustment to the balance sheet as of January 1, 2018 in the amount of \$126,000, representing the unrealized gain of \$175,000 at December 31, 2017 net of taxes of \$49,000. For the nine months ended September 30, 2018, the Company recorded a loss to the income statement in the amount of \$242,000. In addition to the change noted above, adoption of this standard will impact the fair value disclosures included in Note 10.

Note 1 – Basis of Presentation (continued)

In February 2018, the FASB issued ASU No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU required a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate as a result of the Tax Cuts and Jobs Act. The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted twenty-one percent corporate income tax rate. The Company chose to early adopt the new standard for the year ending December 31, 2017, as allowed under the new standard. The amount of the reclassification for the Company was \$557,000, as shown in the Consolidated Statement of Changes in Shareholders' Equity in the Company's Form 10-K filing for the year ended December 31, 2017, subject to Staff Accounting Bulletin 118, Income Tax Implications of the Tax Cuts and Jobs Act ("SAB 118"). SAB 118 provides a measurement period not to extend beyond one year of the enactment date to adjust the accounting for certain elements of the tax reform. The Company does not anticipate a material adjustment to tax expense during the measurement period.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820) Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement as a result of a broader disclosure project. The Update amends the disclosure requirements for fair value measurements to improve the effectiveness of the disclosure. The Update removes and modifies certain disclosure requirements, as well as adds requirements for public business entities. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures upon issuance of the Update and delay adoption of the additional disclosures until their effective date. This ASU will affect the Company's disclosures only and will not have a financial statement impact.

Note 2 – Acquisition of IA Bancorp, Inc.

On April 17, 2018, the Company completed its acquisition of IA Bancorp, Inc. ("IAB") and its wholly-owned subsidiary, Indus-American Bank, of Edison, New Jersey. IAB shareholders received 0.189 shares of the Company's common stock for each share of IAB common stock they owned as of the effective date of the acquisition. In addition, the Company issued two series of preferred stock, Series E and F, in exchange for two outstanding series, Series C and D, respectively, of IAB preferred stock. The two series of Company preferred shares have terms substantially similar to the terms of the two series of IAB preferred stock. The aggregate consideration paid to IAB shareholders was \$20.0 million. The results of IAB's operations are included in the Company's unaudited consolidated statements of income beginning April 17, 2018, the date of the acquisition.

Indus-American Bank was founded primarily to meet the banking needs of the South Asian-American community. The Company plans to operate BCB-Indus-American Bank, a division of BCB Community Bank, and it will continue to specialize in core business banking products for small- to medium-sized companies, with an emphasis on real estate-based lending. This transaction will allow the combined entities to further develop our existing markets in Jersey City and Edison, and will provide further opportunities in Parsippany, Plainsboro and Hicksville, New York, three new, attractive markets for the Company.

The acquisition of IAB was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The \$5.2 million excess consideration paid over the fair value of net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition as of September 30, 2018.

The assets acquired and liabilities assumed and consideration paid in the acquisition of IAB were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. While the fair values are not expected to be materially different from the estimates, any material adjustments to the estimates will be reflected, retroactively, as of the date of the acquisition. The items most susceptible to adjustment are the credit fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

In connection with the acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

	Estimated Fair Value At September 30, 2018 (in thousands)
Consideration paid:	
Common stock issued in acquisition	\$ 9,952
Cash paid for exchange of IAB shares	2,550
Preferred stock	7,453
Total consideration paid	19,955
Assets acquired:	
Cash and cash equivalents	7,597
Investment securities available for sale	13,811
Restricted investment in bank stocks	1,163
Loans	182,585
Premises and equipment, net	2,834
Other real estate owned, net	328
Accrued interest receivable	612
Core deposit intangible	430
Deferred tax asset	5,212
Other assets	1,273
Total assets acquired	215,845

Liabilities assumed:

Deposits	178,436
Borrowings	20,015
Accrued interest payable	120
Other liabilities	2,542
Total liabilities assumed	201,113
Net assets acquired	14,732
Goodwill recorded in acquisition	\$ 5,223

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Note 2 – Acquisition of IA Bancorp, Inc. (continued)

Acquired loans (impaired and non-impaired) are initially recorded at their acquisition-date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Company has prepared three separate loan fair value adjustments that it believes a market participant might employ in estimating the entire fair value adjustment necessary under ASC 820-10 for the acquired loan portfolio. The three separate fair valuation methodologies employed are: (i) an interest rate loan fair value adjustment, (ii) a general credit fair value adjustment, and (iii) a specific credit fair value adjustment for purchased credit impaired loans subject to ASC 310-30 provisions. The acquired loans were recorded at fair value at the acquisition date without carryover of IAB's previously established allowance for loan losses.

The table below illustrates the fair value adjustments made to the amortized cost basis to present a fair value of the loans acquired.

	At September 30, 2018 (in thousands)
Gross principal balance	\$ 192,055
Fair value adjustment on pools of homogeneous loans	(5,895)
Fair value adjustment on acquired impaired loans	(3,575)
Fair value of acquired loans	\$ 182,585

The credit adjustment on acquired impaired loans is derived in accordance with ASC 310-30 and represents the portion of the loan balances that have been deemed uncollectible based on the Company's expectations of future cash flows for each respective loan.

	At September 30, 2018 (in thousands)
Contractually required principal and interest at acquisition	\$ 21,177
Contractual cash flows not expected to be collected (non-accretable	

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discount, includes principal and interest)	(4,892)
Expected cash flows at acquisition	16,285
Interest component of expected cash flows (accretable discount)	(1,399)
Fair value of loans acquired accounted for under ASC 310-30	14,886

For loans acquired without evidence of credit quality deterioration, the Company prepared interest rate loan fair value and credit fair value adjustments. Loans were grouped into homogeneous pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various internal and external data sources and reviewed for reasonableness. A present value approach was utilized to calculate the interest rate fair value discount of \$1.9 million. Additionally, for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: (i) expected lifetime credit migration losses, and (ii) estimated fair value adjustment for certain qualitative credit factors. The expected lifetime losses were calculated using historical losses observed at IAB. The environmental factor represents potential discount which may arise due to general credit and economic factors. A credit fair value discount of \$3.9 million was determined. The fair value adjustment related to loans acquired without evidence of credit quality deterioration will be substantially recognized as interest income over the expected life of the loans.

In connection with the acquisition of IAB, the Company recorded a net deferred income tax asset of \$5.2 million related to IAB's net operating loss carryforward, as well as other tax attributes of the acquired company, along with the effects of fair value adjustments resulting from applying the acquisition method of accounting.

The fair value of savings and transaction deposit accounts acquired from IAB provide value to the Company as a source of below market rate funds. The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate based on the estimated cost of capital for a market participant. To calculate cash flows, the sum of deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available to the Company. The expected cash-flows of the deposit base included estimated attrition rates. The core deposit intangible was valued at \$430,000. The core deposit intangible asset is being amortized on an accelerated basis over ten years. Amortization from the April 17, 2018 acquisition date through September 30, 2018 was \$39,000.

The fair value of certificate of deposit accounts was determined by compiling individual account data into groups of equal remaining maturities with corresponding calculated weighted average rates. Each maturity group's weighted average rate was compared to market rates for similar maturities and then priced to yield market rates. This valuation adjustment was determined to be a \$751,000 premium and is being amortized in line with the expected cash flows driven by the maturities of these deposits, primarily over the next five years.

Direct costs related to the merger were accrued and expensed as incurred. During the nine months ended September 30, 2018, the Company incurred \$2.3 million in merger-related expenses, including \$2.0 million of early termination fees from IAB's core system provider. The Company had also incurred merger costs in the fourth quarter of 2017 of \$800,000 including legal and professional fees.

Note 2 – Acquisition of IA Bancorp, Inc. (continued)

Supplemental Pro Forma Financial Information

The following table presents unaudited condensed pro forma financial information assuming the IAB acquisition had been completed as of January 1, 2018 and for the nine months ended September 30, 2018 and as of January 1, 2017 and for the nine months ended September 30, 2017. The table 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 at the beginning of the periods presented, nor is it indicative of future results.

Furthermore, the unaudited pro forma financial information includes merger-related expenses but does not reflect management's estimate of any revenue-enhancing opportunities, cost savings or the impact of conforming certain accounting policies of IAB to the Company's policies that may have occurred as a result of the integration and consolidation of IAB's operations. The combined pro forma information reflects adjustments related to certain purchase accounting fair value adjustments and amortization of the core deposit intangibles.

	Pro forma Combined Nine Months Ended September 30, 2018 (In thousands, except per share data)	Pro forma Combined Nine Months Ended September 30, 2017 (In thousands, except per share data)
Interest income	\$ 77,616	\$ 59,937
Interest Expense	18,885	12,474
Provision for loan losses	4,309	1,785
Non-interest income	6,914	6,081
Non-interest expense	44,039	36,666
Income Taxes	5,284	5,976
Net Income	12,013	9,117
Earnings per diluted share	\$ 0.73	\$ 0.74

Fair Value Measurement of Assets Acquired and Liabilities Assumed

The methods used to determine the fair value of the assets acquired and the liabilities assumed in the IAB acquisition were as follows. Refer to Note 10, Fair Value Measurements, for a discussion of the fair value hierarchy.

Investment Securities

The estimated fair values of investment securities were calculated utilizing Level 2 inputs. The securities acquired are bought and sold in active markets. Prices for these instruments were determined using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Note 3 – Reclassification

Certain amounts as of December 31, 2017 and for the three and nine month period ended September 30, 2017, respectively have been reclassified to conform to the current period's presentation. These changes had no effect on the Company's results of operations or financial position.

Note 4 – Pension and Other Postretirement Plans

The Company assumed, through the merger with Pamrapo Bancorp, Inc., a non-contributory defined benefit pension plan covering all eligible employees of Pamrapo Savings Bank. Effective January 1, 2010, the defined benefit pension plan ("Pension Plan"), was frozen by Pamrapo Savings Bank. All benefits for eligible participants accrued in the Pension Plan to the freeze date have been retained. Accordingly, no employees are permitted to commence participation in the Pension Plan and future salary increases and future years of service are not considered when computing an employee's benefits under the Pension Plan. The Pension Plan is funded in conformity with the funding requirements of applicable government regulations. The Company also acquired through the merger with Pamrapo Bancorp, Inc. a supplemental executive retirement plan ("SERP") in which certain former employees of Pamrapo Savings Bank are covered. A SERP is an unfunded non-qualified deferred retirement plan. Participants who retire at the age of 65 (the "Normal Retirement Age"), are entitled to an annual retirement benefit equal to 75% of compensation reduced by their retirement plan annual benefits. Participants retiring before the Normal Retirement Age receive the same benefits reduced by a percentage based on years of service to the Company and the number of years prior to the Normal Retirement Age that participants retire.

Net periodic pension benefit for the three and nine months ended September 30, 2018 and September 30, 2017 was \$10,000, \$30,000, \$9,000, and \$27,000 respectively. Net periodic postretirement cost for the SERP plan for the three and nine months ended September 30, 2018 and September 30, 2017 was \$3,000, \$9,000, \$4,000, and \$12,000 respectively.

Share – Based Compensation

The Company, under the plan approved by its stockholders on April 26, 2018 ("2018 Equity Incentive Plan"), authorized the issuance of up to 1,000,000 shares of common stock of the Company pursuant to grants of stock options, restricted stock or restricted stock units. Employees and directors of the Company and the Bank are eligible to participate in the 2018 Equity Incentive Plan. All stock options will be granted in the form of either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options. Restricted stock units are similar to restricted stock awards, except that no share of stock is actually awarded on the date of grant of a restricted stock unit. A restricted stock unit will be settled in shares of Common Stock, provided, however, that in the sole discretion of the Compensation Committee, a restricted stock unit may be settled in cash. Shares of stock issued pursuant to the exercise of stock options will count against the share limit as one share of stock for every one share of stock to which such exercise relates. Shares of stock issued pursuant to restricted stock awards or restricted stock units will count against the share limit as two shares of stock for every one share of stock issued in connection with the award.

Note 4 – Pension and Other Postretirement Plans (continued)

The Company, under the plan approved by its stockholders on April 28, 2011 (“2011 Stock Plan”), authorized the issuance of up to 900,000 shares of common stock of the Company pursuant to grants of stock options. Employees and directors of the Company and the Bank are eligible to participate in the 2011 Stock Plan. All stock options will be granted in the form of either "incentive" stock options or "non-qualified" stock options. Incentive stock options have certain tax advantages that must comply with the requirements of Section 422 of the Internal Revenue Code. Only employees are permitted to receive incentive stock options.

On September 13, 2017, a grant of 350,000 options was declared for members of the Board of Directors and Executive Officers which vest at a rate of 10% per year and 20% per year, respectively, commencing on the first anniversary of the grant date. On September 16, 2016, a grant of 160,000 options was declared for members of the Board of Directors and the Chief Executive Officer, which vest at a rate of 10% per year and 33% per year, respectively, commencing on the first anniversary of the grant date. On December 2, 2015, a grant of 120,000 options and on March 7, 2014, a grant of 110,000 options were declared for certain members of the Board of Directors which vest at a rate of 10% per year, over ten years commencing on the first anniversary of the grant date.

	Number of Option Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2017	889,300	\$ 8.93-13.32	\$ 11.42
Options granted	-	-	-
Options exercised	(12,200)	9.03-13.32	10.91
Options forfeited	(53,000)	9.03-13.32	11.69
Options expired	-	-	-
Outstanding at September 30, 2018	824,100	\$ 8.93-13.32	\$ 11.41

As of September 30, 2018, stock options which were granted and were exercisable totaled 242,033 stock options.

It is Company policy to issue new shares upon share option exercise. Expected future compensation expense relating to the 582,067 shares of unvested options outstanding as of September 30, 2018 was \$1.1 million over a weighted average period of 6.75 years.

	Number of Option Shares	Range of Exercise Prices	Weighted Average Exercise Price
Outstanding at December 31, 2016	575,000	\$ 8.93-13.32	\$ 10.78
Options granted	350,000	12.40	12.40
Options exercised	(700)	10.55	-
Options forfeited	(35,000)	8.93-13.32	-
Options expired	-		
Outstanding at September 30, 2017	889,300	\$ 8.93-13.32	\$ 11.42

As of September 30, 2017, stock options which were granted and were exercisable totaled 139,367 stock options.

It is Company policy to issue new shares upon share option exercise. Expected future compensation expense relating to 749,933 shares of unvested options outstanding as of September 30, 2017 was \$1.8 million over a weighted average period of 7.61 years.

Note 5 – Net Income per Common Share

Basic net income per common share is computed by dividing net income less dividends on preferred stock by the weighted average number of shares of common stock outstanding. The diluted net income per common share is computed by adjusting the weighted average number of shares of common stock outstanding to include the effects of outstanding stock options, if dilutive, using the treasury stock method. Dilution is not applicable in periods of net loss. For the three and nine months ended September 30, 2018 and 2017, the difference in the weighted average number of basic and diluted common shares was due solely to the effects of outstanding stock options. No adjustments to net income were necessary in calculating basic and diluted net income per share. For the three months ended September 30, 2018 and 2017 the weighted average number of outstanding options considered to be anti-dilutive were 3,665 and 0 respectively. For the nine months ended September 30, 2018 and 2017 the weighted average number of outstanding options considered to be anti-dilutive were 1,896 and 0 respectively. At September 30, 2018, the Company has 6,465 shares of its Series F 6% noncumulative perpetual preferred stock (“Series F shares”) issued and outstanding, which are convertible into the Company’s common stock. The conversion of Series F shares to common shares was not included in the computation of diluted earnings per share as they would be anti-dilutive.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations: