1ST CONSTITUTION BANCORP
Form 10QSB
August 09, 2002

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2002

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 or 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 officers)	(Zip Code)

(609) 655-4500
(Registrant'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 subjected to such filing requirements for the past 90 days.

[X] Yes [ ] No

As of July 29, 2002 there were 1,402,307 shares of common stock, no par value outstanding.

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1ST CONSTITUTION BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION
(UNAUDITED)

	June 30, 2002
ASSETS	
CASH AND DUE FROM BANKS	$ 9,154,376
FEDERAL FUNDS SOLD / SHORT-TERM INVESTMENTS	12,015,250
Total cash and cash equivalents	21,169,626
SECURITIES:	
Available for sale, at market value	75,396,577
Held to maturity (market value of $5,458,234 and $6,103,760 in 2002 and 2001, respectively)	5,278,349
Total securities	80,674,926
LOANS HELD FOR SALE	1,715,308
LOANS	130,252,939
Less- Allowance for loan losses	(1,548,104)

Net loans	128,704,835
PREMISES AND EQUIPMENT, net	1,048,297
ACCRUED INTEREST RECEIVABLE	1,113,447
OTHER ASSETS	1,027,102
Total assets	$ 235,453,540
LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES:	
Deposits	
Non-interest bearing	$ 40,841,116
Interest bearing	148,031,595
Total deposits	188,872,711
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	4,198,060
OTHER BORROWINGS	15,500,000
TRUST PREFERRED SECURITIES	5,000,000
ACCRUED INTEREST PAYABLE	1,136,193
ACCRUED EXPENSES AND OTHER LIABILITIES	1,437,188
Total liabilities	216,144,152
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY:	
Common stock, no par value; 15,000,000 shares authorized; 1,404,895 shares issued and 1,402,832 and 1,398,395 outstanding as of June 30, 2002 and December 31, 2001, respectively	15,237,148
Retained earnings	3,582,390
Treasury Stock, shares at cost (7,700 shares and 6,500 shares at June 30, 2002 and December 31, 2001, respectively)	(109,212)
Accumulated other comprehensive income (loss)	599,062
Total shareholders' equity	19,309,388
Total liabilities and shareholders' equity	$ 235,453,540

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See accompanying notes to consolidated financial statements.

1ST CONSTITUTION BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three months ended June 30,		Six months e
INTEREST INCOME	2002	2001	2002
Interest on loans	$2,470,913	$2,666,122	$4,935,960
Interest on securities			
Taxable	965,390	995,055	1,786,388
Tax-exempt	37,581	47,296	75,162
Interest on Federal funds sold and short-term investments	58,104	75,309	117,641
Total interest income	3,531,988	3,783,782	6,915,151
INTEREST EXPENSE			
Interest on deposits	965,863	1,445,252	2,003,886
Interest on securities sold under agreement to repurchase and other borrowed funds	231,772	365,254	456,501
Interest on trust preferred securities	68,256	0	68,256
Total interest expense	1,265,891	1,810,506	2,528,643
Net interest income	2,266,097	1,973,276	4,386,508
Provision for loan losses	60,000	60,000	120,000
Net interest income after provision for loan losses	2,206,097	1,913,276	4,266,508
NON-INTEREST INCOME			
Service charges on deposit accounts	122,547	100,085	243,481
Gain on sale of loans held for sale	254,555	163,912	567,683
Other income	62,408	64,855	119,394
Total non-interest income	439,510	328,852	930,558
NON-INTEREST EXPENSE			
Salaries and employee benefits	833,213	765,392	1,702,169
Occupancy expense	187,701	176,364	369,024
Other operating expenses	648,702	473,109	1,206,277
Total non-interest expense	1,669,616	1,414,865	3,277,470
Income before income taxes	975,991	827,263	1,919,596
Income taxes	352,601	296,158	697,314
Net income	$ 623,390	$ 531,105	$1,222,282
NET INCOME PER SHARE			
Basic	$ 0.44	$ 0.38	$ 0.87
Diluted	$ 0.42	$ 0.37	$ 0.83
WEIGHTED AVERAGE SHARES OUTSTANDING			
Basic	1,401,945	1,399,359	1,400,075
Diluted	1,466,804	1,429,442	1,464,934

See accompanying notes to consolidated financial statements

1ST CONSTITUTION BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months ended June	
	2002	
OPERATING ACTIVITIES:		
Net income	$ 1,222,282	$ 1,
Adjustments to reconcile net income to net cash provided by (used in) operating activities-		
Provision for loan losses	120,000	
Depreciation and amortization	156,435	
Net amortization on securities	115,466	
Gain on sale of loans held for sale	(567,683)	(
Originations of loans held for sale	(29,091,610)	(31,
Proceeds from sales of loans held for sale	35,102,935	26,
Increase in accrued interest receivable	(65,777)	
Increase in other assets	(458,306)	
(Decrease) increase in accrued interest payable	(421,199)	
Increase (decrease) in accrued expenses and other liabilities	817,040	(
Net cash provided by (used in) operating activities	6,929,583	(3,
INVESTING ACTIVITIES:		
Purchases of securities -		
Available for sale	(24,484,602)	(19,
Held to maturity	--	(2,
Proceeds from maturities and prepayments of securities -		
Available for sale	11,555,413	8,
Held to maturity	751,061	1,
Proceeds from sales of securities available for sale	--	
Net increase in loans	(5,301,847)	(10,
Capital expenditures	(205,988)	(
Net cash used in investing activities	(17,685,963)	(23,
FINANCING ACTIVITIES:		
Net increase in demand, savings and time deposits	4,607,915	39,
Net increase in securities sold under agreements to repurchase	389,877	3,
Proceeds from issuance of trust preferred securities	5,000,000	
Net cash provided by financing activities	9,997,792	42,

(Decrease) increase in cash and cash equivalents	(758,588)	15,
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	21,928,214	7,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 21,169,626	$ 22,
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for -		
Interest	$ 2,949,842	$ 3,
Income taxes	$ 783,480	$

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See accompanying notes to consolidated financial statements.

1ST CONSTITUTION BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2002 (UNAUDITED)

(1) BASIS OF PRESENTATION

The accompanying unaudited Consolidated Financial Statements herein have been prepared by 1st Constitution Bancorp (the "Company"), in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission. 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 financial statements and the notes thereto.

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.

Certain reclassifications have been made to the prior years' financial statements to conform with the classifications used in 2002.

(2) NET INCOME PER COMMON SHARE

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

Diluted net income per common share is computed by dividing net income by the weighted average number of shares outstanding, as adjusted for the assumed exercise of potential common stock options, using the treasury stock method. Potential shares of common stock resulting from stock option agreements totaled 64,859 for the three-month and six-month periods ended June 30, 2002 and 30,083 for the same periods at June 30, 2001, respectively. All share amounts have been restated for the effect of a 5% stock dividend declared in 2001.

(3) RECENT ACCOUNTING PRONOUNCEMENT

In July, 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management does not anticipate that the initial adoption of SFAS 146 will have a significant impact on the Company's consolidated financial statements.

In April, 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. The Statement was issued to eliminate an inconsistency in the required accounting for sale-leaseback transactions and certain lease modifications that were similar to sale-leaseback transactions and to rescind FASB Statement No. 44, Accounting for Intangible Assets of Motor Carrier as well as amending other existing authoritative pronouncements to make various technical corrections.

SFAS No. 145 also rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishments of Debt and SFAS No. 64 Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. Under SFAS No. 4, as amended by SFAS No. 64, gains and losses from the extinguishment of debt were required to be classified as an extraordinary item, if material. Under SFAS No. 145, gains or losses from the extinguishment of debt are to be classified as a component of operating income, rather than an extraordinary item. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, with early adoption of the provisions related to the rescission of SFAS No. 4 encouraged. Upon adoption, companies must reclassify prior period amounts previously classified as an extraordinary item. Management does not anticipate that the initial adoption of SFAS 145 will have a significant impact on the Company's consolidated financial statements.

ITEM 2 -- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of the operating results and financial condition at June 30, 2002 is intended to help readers analyze the accompanying financial statements, notes and other supplemental information contained in this document. Results of operations for the three and six-month periods ended June 30, 2002 are not necessarily indicative of results to be attained for any other period.

General

1st Constitution Bancorp (the "Company"), a bank holding company, was incorporated in February 1999 for the purpose of becoming the parent holding company of 1st Constitution Bank (the "Bank"), a full service commercial bank which began operations in August 1989. 1st Constitution Capital Trust I, a subsidiary of the Company, was created to issue trust preferred securities to assist the Company to raise additional regulatory capital. The Bank operates 6 branches and has 2 subsidiaries, 1st Constitution Investment Company, which manages an investment portfolio and FCB Assets Holdings, Inc., which is used by the Bank to manage and dispose of repossessed property/real estate.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expressions about our confidence and strategies and our expectations about new and existing programs and products, relationships, opportunities, technology and market conditions. These statements may be identified by such forward-looking terminology as "expect", "believe", "anticipate", or by expressions of confidence such as "continuing" or "strong" or similar statements or variations of such terms. Such forward-looking statements involve certain risks and uncertainties. These include, but are not limited to, expected cost savings not being realized or not being realized within the expected time frame; income or revenues being lower than expected or operating costs higher; competitive pressures in the banking or financial services industries increasing significantly; business disruption related to program implementation or methodologies; weakening of general economic conditions nationally or in New Jersey; changes in legal and regulatory barriers and structures; and unanticipated occurrences delaying planned programs or initiatives or increasing their costs or decreasing their benefits, as well as other risks and uncertainties detailed from time to time in filings of the Company with the U.S. Securities and Exchange Commission. Actual results may differ materially from such forward-looking statements. The Company assumes no obligation for updating any such forward-looking statements at any time.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002 AND JUNE 30, 2001

Summary

The Company realized net income of $623,390 for the three months ended June 30, 2002 as compared to $531,105 reported for the same period in 2001. Net income per diluted share was $0.42 for the three months ended June 30, 2002 compared to $0.37 per diluted share for the prior year.

EARNINGS ANALYSIS

Interest Income

Interest income for the quarter ended June 30, 2002 was $3,531,988, a decrease of $251,794 from the $3,783,782 reported in the same period of 2001. This decrease is primarily attributable to the declining interest rate environment that existed throughout 2001 and continued into the second quarter of 2002. For the three months ended June 30, 2002, average interest earning assets increased $21,079,025 or 10.6%, compared with the same period in 2001. The increase in interest income resulting from increases in earning asset volume was offset by a decrease in the average yield earned on these assets. For the three months ended June 30, 2002, the average yield on earning assets decreased 121 basis points to 6.50% from 7.71% for the same period last year.

Interest Expense

Interest expense for the quarter ended June 30, 2002 was $1,265,891, a decrease of $544,615 from $1,810,506 reported in the same period last year. The average cost of interest bearing liabilities decreased 157 basis points to 2.99% for the current quarter of 2002 from 4.56% for the same period last year, primarily as a result of a decrease in rates paid on deposits and short-term borrowed funds. Total average interest bearing liabilities increased by $10,735,184 for the current quarter of 2002 compared to the same period in 2001.

Net Interest Income

The net effect of the changes in interest income and interest expense for the three months ended June 30, 2002 compared to the prior year period was an increase of $292,821 in net interest income. For the three months ended June 30, 2002, the net interest margin, on a fully taxable equivalent basis, increased 14 basis points from the same period last year. The increase in the net interest margin was primarily the result of interest bearing liabilities repricing faster than interest earning assets in the decreasing rate environment that has continued through the first six months of 2002.

Provision for Loan Losses

For the three months ended June 30, 2002 and June 30, 2001, the provision for loan losses was $60,000. The comparable provisions were the result of stable loan portfolio growth combined with lower levels of non-performing loans. The amount of the loan loss provisions and the level of the allowance for loan losses are critical accounting policies of the Company and are based upon a number of factors including Management's evaluation of potential losses in the portfolio after consideration of appraised collateral values, financial conditions and past credit history of the borrowers as well as prevailing economic conditions.

Non-Interest Income

For the three months ended June 30, 2002, compared to the same period of 2001, total non-interest income increased $110,658 or 33.6%, to $439,510 compared to $328,852. The increase was due primarily to increases of $90,643 in gains on sale of loans held for sale and $22,462 in service charges on deposit accounts. These increases were partially offset by a modest decline in other income of $2,447. The declining interest rate environment that existed in 2001 and continues in 2002 greatly fueled the volume of mortgage loan originations and subsequent secondary market mortgage loan sales.

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Non-Interest Expense

For the three months ended June 30, 2002, non-interest expense increased $254,751, or 18.0%, from the same period last year. Salaries and employee benefits increased $67,821 compared to the prior year period primarily due to increased staffing levels to manage the continuing growth of the Company plus normal salary increases. Occupancy expense increased $11,337 and other expenses increased $175,593 as a result of a full quarter of operating expenses for the new Windrows branch office opened in February 2002 plus additional professional fee expenses associated with the Company's issuance of trust preferred securities during April 2002.

An important industry productivity measure is the efficiency ratio. The efficiency ratio is calculated by dividing total operating expenses by net interest income and other income. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same or greater volume of income, while a decrease would indicate a more efficient allocation of resources. The Company's efficiency ratio remained relatively consistent for the quarter ended June 30, 2002 at 61.7% compared to 61.5% for the quarter ended June 30, 2001.

SIX MONTHS ENDED JUNE 30, 2002 AND JUNE 30, 2001

Summary

The Company realized net income of $1,222,282 for the six months ended June 30, 2002, an increase of 20.9% over the $1,011,359 for the same period in 2001. Net income per diluted share was $0.83 for the six months ended June 30, 2002 compared to $0.70 per diluted share for the prior year.

EARNINGS ANALYSIS

Interest Income

For the first six months of 2002, total interest income was $6,915,151, a decrease of 6.8% compared to total interest income of $7,418,845 for the same period in 2001. The following table sets forth the Company's consolidated average balances of assets, liabilities and shareholders' equity as well as interest income and expense on related items, and the Company's average rate for the six month periods ended June 30, 2002 and 2001.

AVERAGE BALANCE SHEETS WITH RESULTANT INTEREST AND RATES

(yields on a tax-equivalent basis)	Six months ended June 30, 2002			Six mo
	Average Balance	Interest	Average Rate	Average Balance
ASSETS:				
Federal Funds Sold/Short-Term Investments	$ 12,958,635	$ 117,641	1.83%	$ 5,370,31
Securities:				
U.S. Treasury Bonds	-	-	0.00%	328,47
Collateralized Mortgage Obligations/				
Mortgage Backed Securities	68,602,042	1,786,387	5.21%	59,393,72
States and Political Subdivisions	3,186,629	111,240	6.98%	3,25947
Total	71,788,671	1,897,627	5.29%	62,981,67
Loan Portfolio:				
Commercial	23,929,046	974,642	8.21%	25,554,61
Installment	14,381,138	567,877	7.96%	15,214,85
Commercial Mortgages and Construction Wholesale	65,311,675	2,252,536	6.95%	52,873,08
Residential Mortgages and Construction Retail	19,215,418	720,207	7.56%	19,755,62
All Other Loans	7,969,539	420,699	10.90	7,361,05
Total	130,806,816	4,935,961	7.61%	119,759,22
TOTAL INTEREST-EARNING ASSETS	215,554,122	6,951,229	6.50%	188,111,21
Allowance for Loan Losses	(1,494,085)			(1,199,380
Cash and Due From Bank	7,512,915			6,282,63
Other Assets	3,253,432			3,015,86
TOTAL ASSETS	$224,826,384			$196,210,33
Interest-Bearing Liabilities:				
Money Market and NOW Accounts	$ 62,734,530	$465,289	1.50%	$ 33,706,82

Savings Accounts	12,593,561	93,016	1.49%	10,568,61
Certificates of Deposit	54,315,996	1,110,256	4.12%	50,784,22
Certificates of Deposit of $100,000 and Over	17,487,849	335,325	3.87%	23,087,15
Federal Funds Purchased/Other Borrowed Funds	19,425,539	456,501	4.74%	30,620,84
Trust Preferred Securities	2,237,569	68,256	6.02%	
TOTAL INTEREST-BEARING LIABILITIES	168,795,044	2,528,643	3.02%	148,767,65
NET INTEREST SPREAD			3.48%	
Demand Deposits	34,795,928			29,211,37
Other Liabilities	3,183,819			2,627,96
Total Liabilities	206,774,791			180,606,98
Shareholders' Equity	18,051,593			15,603,34
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	224,826,384			196,210,33
NET INTEREST MARGIN		$4,422,586	4.14%	

The current year decrease in interest income occurred despite higher average balances in the securities and loan portfolios as these were offset by lower yields earned on these portfolios. Average loans increased $11,047,590, or 9.2% while the yield on the portfolio decreased 129 basis points to 7.61% from 8.90%. The lower loan yield reflected the lower interest rate environment that existed throughout 2001 and continued into the second quarter of 2002.

Average securities increased $8,806,996, or 14.0%, while the yield on the securities portfolio decreased 117 basis points to 5.29% from 6.46%.

Overall, the yield on the Company's total interest-earning assets decreased 150 basis points to 6.50% for the six months ended June 30, 2002 from the 8.00% for the same period in 2001.

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Interest Expense

Total interest expense for the six months ended June 30, 2002 was $2,528,643, a decrease of 27.5% compared to $3,487,690 for the same period in 2001. The decrease in interest expense for the current period resulted primarily from the impact of higher levels of interest-bearing liabilities priced at a significantly lower market interest rate level. The average rate paid on interest bearing liabilities for the six months ended June 30, 2002 decreased 171 basis points to 3.02% from 4.73% for the same period of 2001.

Net Interest Income

The Company's net interest income for the six month period ended June 30, 2002 was $4,386,508, an increase of 11.6% compared to $3,931,155 for the same period in 2001. For the first six months of 2002, interest income decreased by $503,694 compared to the same period in 2001 while interest expense decreased by $959,047 compared to the same period in 2001. Although the loan and securities portfolios average balances increased during the first six months of 2002, those assets earned lower rates of return in 2002 than during 2001.

The net interest margin (on a tax-equivalent basis), which is net interest income divided by average interest-earning assets, was 4.14% for the first six months of 2002 compared to 4.25% for the same period in 2001. The principal factor causing the decline in the net interest margin was the lower interest rate environment that existed throughout 2001 and continued into the second quarter of 2002.

Provision for Loan Losses

The provision for loan losses for the six months ended June 30, 2002 and 2001 was $120,000. The comparable provisions were the result of stable loan portfolio growth combined with lower levels of non-performing loans.

Non-Interest Income

Total non-interest income for the six months ended June 30, 2002 was $930,558, an increase of 53.1% over non-interest income of $607,788 for the same period in 2001. The increase was due primarily to increases in service charges on deposit accounts and gains on loans held for sale, partially offset by a decrease in other non-interest income.

Gain on sale of loans held for sale represents the largest single source on non-interest income. Gain on sale of loans held for sale for the six months ended June 30, 2002 was $567,683 compared to $278,928 for the same period in 2001. The declining interest rate environment that existed in 2001 and continues in 2002 greatly fueled the volume of mortgage loan originations and subsequent secondary market mortgage loan sales.

Service charges on deposit accounts amounted to $243,481 for the six months ended June 30, 2002 compared to $186,560 for the same period in 2001. Service charge income increased in 2002 principally due to increases in income from overdraft fees and wire transfer service fees.

The Company also generates non-interest income from a variety of other fee-based services. These fees are monitored closely by Management to reflect current charges amid the Company's competitive market.

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Non-Interest Expense

Total non-interest expense for the six months ended June 30, 2002 was $3,277,470, an increase of 15.7% compared to non-interest expense of $2,833,601 for the same period in 2001.

The following table presents the major components of non-interest expense for the six months ended June 30, 2002 and 2001.

NON-INTEREST EXPENSES

	Six months ended June 30	
	2002	2001
Salaries and employee benefits	$1,702,169	$1,515,584
Occupancy expenses	369,024	358,277
Equipment expense	209,132	143,916
Marketing	125,506	88,009

Computer services	271,196	237,207
Regulatory, professional and other fees	232,211	151,225
Office expense	145,722	163,756
All other expenses	222,510	175,627
	$3,277,470	$2,833,601

Salaries and employee benefits increased 12.3% to $1,702,169 for the six months ended June 30, 2002 compared to $1,515,584 for the six months ended June 30, 2001. This increase reflects the increase in staffing for the new Windrows branch that opened in February 2002.

The Company's ratio of non-interest expense to average assets remained reasonably consistent at 2.94% for the six months ended June 30, 2002 compared to 2.91% for the same period in 2001. The Company's efficiency ratio decreased to 61.6% for the first six months of 2002 compared to a ratio of 62.4% for the first six months of 2001.

FINANCIAL CONDITION

June 30, 2002 Compared with December 31, 2001

Total consolidated assets at June 30, 2002 totaled $235,453,540 compared to $223,183,463 at December 31, 2001. The increase in the Company's asset base during the first six months of 2002 was primarily funded by an increase in non-interest bearing deposits and the $5,000,000 in proceeds from the issuance of trust preferred securities. Total deposits increased by $4,607,915 or 2.5% to $188,872,711 at June 30, 2002 compared to $184,264,796 at December 31, 2001.

Cash and Cash Equivalents

Cash and Cash Equivalents at June 30, 2002 totaled $21,169,626 compared to $21,928,214 at December 31, 2001. Cash and cash equivalents at June 30, 2002 consisted of cash and due from banks of $9,154,376 and Federal funds sold/short term investments of $12,015,250. The corresponding balances at December 31, 2001 were $8,173,550 and $13,754,664, respectively. The balance of cash and cash equivalents at June 30, 2002 decreased primarily due to decreased interest bearing deposit balances.

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Securities

Securities represented 34.3% of total assets at June 30, 2002 and 30.3% at December 31, 2001. Total securities increased $13,034,942 or 19.3% at June 30, 2002 to $80,674,926 compared to $67,639,984 at year-end 2001.

Information relative to the Company's securities portfolio at June 30, 2002, is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
JUNE 30, 2002			
Available for sale --			
U.S. Treasury securities and obligations of			

U.S. Government corporations and agencies	$36,587,489	$ 422,587	$ 73,769
Mortgage backed securities	31,039,788	610,410	12,508
FHLB stock and other securities	6,861,630	69,944	108,993
	$74,488,907	$ 1,102,940	$ 195,270
Held to maturity --			
Obligations of State and Political Subdivisions	$ 3,181,162	$ 88,696	$ 0
	2,097,187	91,189	0
Mortgage backed securities	$ 5,278,349	$ 179,885	$ 0

Securities available for sale totaled $75,396,577 at June 30, 2002, an increase of $13,791,520 or 22.4% from year-end 2001. During the first six months of 2002, $24,484,602 of securities available for sale were purchased (predominantly mortgage backed securities) and funded by calls and maturities of securities held to maturity, securities available for sale and short-term investments.

Securities held to maturity totaled $5,278,349 at June 30,2002, a decrease of $756,578 or 12.5% from year-end 2001.

Loans

The loan portfolio, which represents the Company's largest asset, is a significant source of both interest and fee income. Elements of the loan portfolio are subject to differing levels of credit and interest rate risk. The Company's primary lending focus continues to be commercial loans, owner-occupied commercial mortgage loans and tenanted commercial real estate loans.

The following table sets forth the classification of loans by major category at June 30, 2002 and December 31, 2001.

LOAN PORTFOLIO COMPOSITION

	June 30, 2002		December 31, 2001	
Component	Amount	% of total	Amount	% of total
Construction loans	$ 28,795,286	22.1%	$ 29,385,096	23.5%
Residential real estate loans	9,141,347	7.0%	11,634,097	9.3%
Commercial and industrial loans	70,541,321	54.2%	62,043,318	49.7%
Loans to individuals	15,916,407	12.2%	15,587,772	12.5%
Lease financing	5,420,597	4.2%	6,117,261	4.9%
All other loans	437,981	0.3%	169,939	0.1%
	$130,252,939	100.0%	$124,937,483	100.0%

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The loan portfolio increased at June 30, 2002 to $130,252,939 from $124,937,483 at December 31, 2001. The ability of the Company to enter into larger loan relationships and management's philosophy of relationship banking are key factors in continued loan growth. Strong competition from both bank and non-bank competitors could result in comparatively lower yields on new and established lending relationships. The ultimate collectability of the loan portfolio and the recovery of the carrying amount of real estate are subject to changes in the Company's market region's economic environment and real estate market.

Non-Performing Assets

Non-performing assets consist of non-performing loans and other real estate owned. Non-performing loans are composed of (1) loans on a non-accrual basis, (2) loans which are contractually past due 90 days or more as to interest and principal payments but have not been classified as non-accrual and (3) loans whose terms have been restructured to provide a reduction or deferral of interest on principal because of a deterioration in the financial position of the borrower.

The Company's policy with regard to non-accrual loans varies by the type of loan involved. Generally, commercial loans are placed on a non-accrual status when they are 90 days past due unless these loans are well secured and in the process of collection or, regardless of the past due status of the loan, when management determines that the complete recovery of principal or interest is in doubt. Consumer loans are generally charged off after they become 90 days past due. Residential mortgage loans are not generally placed on a non-accrual status unless the value of the real estate has deteriorated to the point that a potential loss of principal or interest exists. Subsequent payments are credited to income only if collection of principal is not in doubt.

Nonaccrual loans amounted to $16,539 at June 30, 2002, a decrease of $601,563 from $618,102 at year-end 2001. As the table demonstrates, loan quality and ratios remain strong. This was accomplished through quality loan underwriting, a proactive approach to loan monitoring and aggressive workout strategies.

NON-PERFORMING ASSETS AND LOANS	June 30, 2002	December 31, 2001
Non-Performing loans:		
Loans 90 days or more past due and still accruing	$ 15,413	$ 0
Non-accrual loans	16,539	618,102
Total non-performing loans	31,952	618,102
Other real estate owned	37,855	0
Total non-performing assets	$ 69,807	$618,102
Non-performing loans to total loans	0.02%	0.49%
Non-performing assets to total assets	0.03%	0.28%

The Company had no restructured loans or impaired loans at June 30, 2002. Impaired loans totaled $609,237 at December 31, 2001.

Allowance for Loan Losses

The determination of the adequacy of the allowance for loan losses is a critical accounting policy of the Company and is maintained at a level believed by management sufficient to absorb probable credit losses inherent in the loan portfolio as of the date of the financial statements. The allowance for loan losses is a valuation reserve available for losses incurred in the loan portfolio and other extensions of credit.

Management utilizes a systematic and documented allowance adequacy methodology for loan losses that requires specific allowance assessment for all loans, including real estate mortgages and consumer loans. This methodology assigns reserves based upon credit risk ratings for all loans. The reserves are based upon various factors, including historical performance, general economic conditions as well as the current economic conditions of borrowers and underlying collateral values. Management periodically reviews the process used to determine the adequacy of the allowance for loan losses. Allocations to the allowance for loan losses, both specific and general, are determined after this review. Loans are classified based on internal reviews and evaluations performed by the lending staff. These evaluations are, in turn, examined by the Company's internal loan review specialist. A formal loan review function, independent of loan origination, is used to identify and monitor risk classifications. The determination of the adequacy of the allowance for loan losses is inherently subjective in nature and subject to significant near term change based upon the underlying factors discussed above.

The allowance for loan losses amounted to $1,548,104 at June 30, 2002, an increase of $133,609 from December 31, 2001. The ratio of the allowance for loan losses to total loans was 1.19% at June 30, 2002 and 1.13% at December 31, 2001, respectively. The quality of the loan portfolio remains strong and it is management's belief that the allowance for loan losses is adequate in relation to credit risk exposure levels.

The following table presents, for the periods indicated, an analysis of the allowance for loan losses and other related data.

ALLOWANCE FOR LOAN LOSSES	June 30, 2002	June 30, 2001
Balance, beginning of period	$ 1,414,495	$ 1,132,555
Provision charged to operating expenses	120,000	120,000
Loans charged off	(7,337)	(392)
Recoveries	20,946	1,483
Net recoveries	13,609	1,091
Balance, end of period	$ 1,548,104	$ 1,253,646
Loans:		
At period end	$ 130,252,939	$ 121,513,703
Average during the period	130,806,816	119,759,226
Net recoveries to average loans outstanding	0.01%	0.00%
Allowance for loan losses to:		
Total loans at period end	1.19%	1.03%
Non-performing loans	0.00%	0.00%

Deposits

Deposits, which include demand deposits (interest bearing and non-interest bearing), savings and time deposits, are a fundamental and cost-effective source of funding the Company's operations. The Company offers a variety of products designed to attract and retain customers, with management's primary focus being on building and expanding long-term relationships.

AVERAGE DEPOSIT BALANCE

	Six months ended June 30, 2002	
	Balance	Percentage Of Total
Non-interest bearing demand deposits	$ 34,795,928	19.1%
Interest bearing demand deposits	62,734,530	34.5%
Savings deposits	12,593,561	6.9%
Certificates of deposit of $100,000 or more	17,487,849	9.6%
Other time deposits	54,315,996	29.9%
Total	$181,927,864	100.0%

Total deposits increased $4,607,915 or 2.5% to $188,872,711 at June 30, 2002 from $184,264,796 at December 31, 2001. This increase in total deposits was primarily the result of a $3,599,306 decrease in interest bearing deposits to $148,031,595 as customers with maturing time deposits migrated from the Company in searching for higher competitive rates during this period of lower market interest rates. This was offset by a $8,207,221 in increase in non-interest bearing deposits to $40,841,116.

Other Borrowings

Other Borrowings are comprised of fixed rate convertible advances from the Federal Home Loan Bank ("FHLB"). These borrowings are primarily used to fund asset growth not supported by deposit generation. These advances are fully secured by marketable securities and qualifying one-to-four family mortgage loans.

The balances of other borrowed funds was $15,500,000 at June 30, 2002 and December 31, 2001.

Trust Preferred Securities

On April 10, 2002, the Company, through a wholly owned subsidiary, issued $5.0 million of floating rate Trust Preferred Securities in a pooled institutional placement transaction. The Trust Preferred Securities mature April 22, 2032 and have an initial rate of 6.02%. The Trust Preferred Securities are redeemable in whole or in part prior to maturity after April 22, 2007.

Shareholders' Equity And Dividends

Shareholders' equity at June 30, 2002 totaled $19,309,388, an increase of $1,876,444, or 10.8%, compared to December 31, 2001. Book value per common share rose to $13.76 at June 30, 2002 compared to $12.47 at December 31, 2001.

In 2000, the Board of Directors authorized a stock buyback program that allows for the repurchase of a limited number of the Company's shares at management's discretion on the open market. The Company undertook this repurchase program in order to increase shareholder value. During the six months ended June 30, 2002, 1,200 shares of common stock were purchased and, during 2001, 4,610 shares were purchased under this program. Treasury stock totaled $109,212 at June 30, 2002 compared to $83,190 at December 31, 2001.

During December 2001, the Company's stock became listed for trading on the NASDAQ National Market System, under the symbol, "FCCY".

The table below presents the actual capital amounts and ratios of the Company for the periods indicated:

CAPITAL RATIOS

	Amount	Ratio
As of June 30, 2002 -		
Total capital to risk weighted assets	$25,258,522	16.11%
Tier 1 capital to risk weighted assets	23,710,418	15.12%
Tier 1 capital to average assets	23,710,418	10.36%
As of December 31, 2001-		
Total capital to risk weighted assets	$18,890,081	12.82%
Tier 1 capital to risk weighted assets	17,475,586	11.86%
Tier 1 capital to average assets	17,475,586	7.57%

The minimum regulatory capital requirements for financial institutions require institutions to have a Tier 1 capital to average assets ratio of 4.0%, a Tier 1 capital to risk weighted assets ratio of 4.0% and a total capital to risk weighted assets ratio of 8.0%. To be considered "well capitalized," an institution must have a minimum Tier 1 leverage ratio of 5.0%. At June 30, 2002, the ratios of the Company exceeded the ratios required to be considered well capitalized. It is management's goal to monitor and maintain adequate capital levels to continue to support asset growth and continue its status as a well-capitalized institution.

Liquidity

At June 30, 2002, the amount of liquid assets remained at a level management deemed adequate to ensure that contractual liabilities, depositors withdrawal requirements, and other operational and customer credit needs could be satisfied.

Liquidity measures the ability to satisfy current and future cash flow needs as they become due. Liquidity management refers to the Company's ability to support asset growth while satisfying the borrowing needs and deposit withdrawal requirements of customers. In addition to maintaining liquid assets, factors such as capital position, profitability, asset quality and availability of funding affect a banks' ability to meet its liquidity needs. On the asset side, liquid funds are maintained in the form of cash and cash equivalents, Federal funds sold, investment securities held to maturity maturing within one year, securities available for sale and loans held for sale. Additional asset-based liquidity is derived from scheduled loan repayments as well as investment repayments of principal and interest from mortgage-backed securities. On the liability side, the primary source of liquidity is the ability to generate core deposits. Short-term borrowings are used as supplemental funding sources when growth in the core deposit base does not keep pace with that of earnings assets.

The Company has established borrowing relationship with the FHLB and its correspondent banks which further support and enhance liquidity.

The Consolidated Statements of Cash Flows present the changes in cash from operating, investing and financing activities.

Net cash provided by operating activities totaled $6,929,583 in 2002 compared to $3,686,953 used in operating activities in 2001. The primary sources of funds are net income from operations adjusted for provision for loan losses, depreciation expenses, and amortization of intangibles and net proceeds from sales of loans held for sale.

Net cash used in investing activities totaled $17,685,963 in 2002 compared to $23,451,460 in 2001. The decrease in usage was the result of a lower volume of loan originations for the six months ended June 30, 2002.

Net cash provided by financing activities amounted to $9,997,792 in 2002 compared to $42,509,561 provided by financing activities in 2001. The decrease in 2002 resulted primarily from a lesser total volume increase in deposits during the six month period ended June 30, 2002 compared to the same prior year period.

The securities portfolio is also a source of liquidity, providing cash flows from maturities and periodic repayments of principal. During 2002, maturities of investment securities totaled $12,306,474. Another source of liquidity is the loan portfolio, which provides a steady flow of payments and maturities.

Interest Rate Sensitivity Analysis

The largest component of the Company's total income is net interest income, and the majority of the Company's financial instruments are composed of interest rate-sensitive assets and liabilities with various terms and maturities. The primary objective of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the repricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. Management actively seeks to monitor and control the mix of interest rate-sensitive assets and interest rate-sensitive liabilities.

The Company continually evaluates interest rate risk management opportunities, including the use of derivative financial instruments. Management believes that hedging instruments currently available are not cost-effective, and therefore, has focused its efforts on increasing the Company's spread by attracting lower-costing retail deposits.

MARKET RISK ANALYSIS

To measure the impacts of longer-term asset and liability mismatches beyond two years, the Company utilizes Modified Duration of Equity and Economic Value of Portfolio Equity ("EVPE") models. The modified duration of equity measures the potential price risk of equity to changes in interest rates. A longer modified duration of equity indicates a greater degree of risk to rising interest rates. Because of balance sheet optionality, an EVPE analysis is also used to dynamically model the present value of asset and liability cash flows, with rates ranging up or down 200 basis points. The economic value of equity is likely to be different as interest rates change. Results falling outside prescribed ranges require action by management. At June 30, 2002 and December 31, 2001, the Company's variance in the economic value equity as a percentage of assets with an instantaneous and sustained parallel shift of 200 basis points is within the negative 3% guideline, as shown in the tables below.

The market capitalization of the Company should not be equated to the EVPE, which only deals with the valuation of balance sheet cash flows using conservative assumptions. Calculated core deposit premiums may be less than what is available in an outright sale. The model does not

consider potential premiums on floating rate loan sales, the impact of overhead expense, non-interest income, taxes, industry market price multiples and other factors reflected in the market capitalization of a company.

The following tables set forth certain information relating to the Company's financial instruments that are sensitive to changes in interest rates, categorized by expected maturity or repricing and the instruments fair value at June 30, 2002 and December 31, 2001.

MARKET RISK ANALYSIS

	June 30, 2002			December 31, 2001	
Change in Rates	Flat	-200bp	+200bp	Flat	-200bp
Economic Value of Portfolio Equity	$25,508,000	$23,864,000	$22,334,000	$22,128,000	$21,465,000
Change		(1,644,000)	(3,174,000)		(663,000)
Change as a % of assets		(0.70%)	(1.35%)		(0.30%)

Part II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds.

(a). At the Annual Meeting of Shareholders held on May 16, 2002, an amendment to the Company's Certificate of Incorporation was approved establishing a classified Board of Directors, consisting of three classes, with each class containing, as nearly as practicable, an equal number of directors. At each annual meeting of shareholders, the holders of shares of common stock are entitled to elect one of the classes of the Company's Board of Directors.

(b) At the Annual Meeting of Shareholders held on May 16, 2002, an amendment to the Company's Certificate of Incorporation was approved amending the authorized capital stock of the Company. The aggregate number of shares of stock which the Company has the authority to issue is 20,000,000 of which 5,000,000 are preferred stock without par value and 15,000,000 are common stock without par value. The preferred stock may have such rights and preferences as the Board may determine. The Company has no plans to issue preferred stock at this time.

(c) The Company issued 5,000 shares of common stock on April 1, 2002 to Mr. Mangano for a price of $7.34 per share pursuant to his exercise of options granted to him on September 10, 1996 under the 1996 Employee Stock Option Plan. The common stock was issued in reliance on Rule 701 of the Securities Act of 1933, as amended, which provides an exemption for securities issued pursuant to a written compensatory plan for participation of employees if the offer was made prior to the issuer becoming subject to the reporting requirements of the Exchange Act.

Item 4 - Submission of Matters to a Vote of Security Holders Proxies were mailed to shareholders of the Company on March 21, 2002 for the Annual Meeting of Shareholders on May 16, 2002. The purpose was to vote on:

Note:	Shares Outstanding:	1,397,895
	Shares Voted:	1,183,577

(1) The election of five Directors to the Company's Board of Directors. Since the Proposal to establish a classified Board of Directors (Proposal 2) was approved, the five Directors were elected to serve for a period of one to three years and until their successors shall have been elected and qualified;

(2) An amendment to the Certificate of Incorporation to establish a classified Board of Directors, comprised of three classes, each class to serve for three years;

(3) An amendment to the Certificate of Incorporation to (a) increase the total number of authorized shares of Common Stock from 10,000,000 to 15,000,000 and (b) authorize the issuance of up to 5,000,000 shares of "blank check" Preferred Stock with such rights and preferences as the Board of Directors may determine;

(4) The ratification of the selection of KPMG LLP as independent auditor of the Company for the 2002 fiscal year.

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Following are the results of the voting:

(1) Election of Directors:

	Class	Votes For	Votes Withheld	Per
Charles S. Crow	I	1,180,359	3,218	
Edward D. Knapp	III	1,176,789	6,788	
Robert F. Mangano	III	1,176,789	6,788	
William M. Rue	II	1,179,488	4,089	
Frank E. Walsh III	II	1,180,359	3,218	

(2) Amendment to Certificate of Incorporation for classified Board of Directors:

	Votes	Percentage
For:	720,793	85.4%
Against:	123,078	
Abstain:	1,550	
Broker Non Vote:	338,156	

(3) Amendment to Certificate of Incorporation to increase number of

authorized shares:

	Votes	Percentage
For:	667,149	79.3%
Against:	174,113	
Abstain:	4,159	
Broker Non Vote:	338,156	

(4) Ratification of Auditors:

	Votes	Percentage
For:	1,178,142	99.7%
Against:	2,698	
Abstain:	2,737	

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
10.1	Amended and Restated Stock Option Plan for Key Employees, as amended by Amendment effective July 1, 1999 and as further amended by Second Amendment effective April 25, 2002 (filed herewith)
10.2	1996 Employee Stock Option Plan, as amended by Amendment and by a further Amendment effective July 1, 1999 and as further amended by Third Amendment effective April 25, 2002 (filed herewith)
99.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
99.2	Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

(b) Form 8-K
There has been no Form 8-K filed during the second quarter of 2002.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

1st Constitution Bancorp

(Registrant)

Dated: August 9, 2002

By: /s/ Robert F. Mangano

Robert F. Mangano
President and
Chief Executive Officer

/s/ Joseph M. Reardon

Joseph M. Reardon
Vice President and Treasurer
(Principal Accounting Officer)

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Exhibit Index

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