

# 1st Constitution Bancorp FCCY (NAS)

Last Close	Industry	Sector
9.05 USD	Regional - Northeast Banks	Financial Services

## Profile

Pricing data through 11 Mar 2010

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### Contents

Company Profile	1
Company Data	2
Management & Ownership	3
Industry Focus	4

1st Constitution Bancorp was organized under the laws of the State of New Jersey in February 1999. It is a bank holding company for 1st Constitution Bank (the 'Bank'). The Bank engages in the business of commercial and retail banking. The Bank offers a wide range of services (including demand, savings and time deposits and commercial and consumer/installment loans) to individuals, small businesses and not-for-profit organizations mainly in Middlesex, Mercer and Somerset Counties, New Jersey.

The Bank conducts its operations through its main office located in Cranbury, New Jersey, and operates ten additional branch offices in downtown Cranbury, Hamilton Square, Hightstown, Jamesburg, Montgomery, Perth Amboy, Plainsboro, West Windsor, Fort Lee and Princeton, New Jersey. The Bank provides a wide range of commercial and consumer banking services to individuals, families, institutions and small businesses in central New Jersey and the Fort Lee area of Bergen County. The Bank's focus is to understand the needs of the community and the customers and tailor products, services and advice to meet those needs.

The Bank seeks to provide a high level of personalized banking services, emphasizing quick and flexible responses to customer demands. The Bank continually evaluates opportunities for branch bank expansion, either mini branches or full service branches, to continue to grow and meet the needs of the community. The Bank experiences substantial competition in attracting and retaining deposits and in making loans. As a bank holding company, the Company is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve Board).

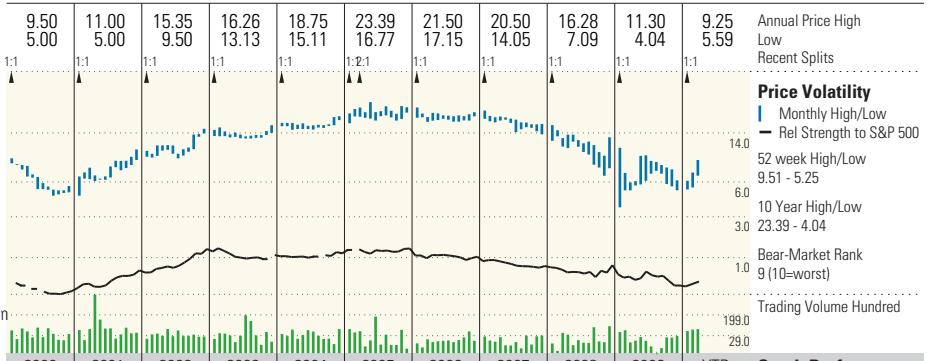
# 1st Constitution Bancorp FCCY

**Sales USD Mil** 21    **Mkt Cap USD Mil** 43    **Industry** Regional - Northeast Banks    **Sector** Financial Services

Headquartered in central New Jersey, 1st Constitution is a small community bank with just 11 branch locations. Principally concentrated in construction and commercial lending, the bank has approximately \$383 million in loans and \$415 million in deposits.

2650 Route 130 P.O. Box 634 Cranbury, NJ 08512  
 Phone: 1 609 655-4500  
 Website: <http://www.firstconstitutionbank.com>  
 Employees: 122

**Morningstar Rating** -    **Last Price** 9.05    **Fair Value** -    **Uncertainty** -    **Economic Moat™** -    **Stewardship Grade** -  
 per share prices in USD



Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-3.2	3.1	9.7	—	
Operating Income %	—	—	—	—	
Earnings/Share %	-51.9	-16.8	-4.0	—	
Dividends %	—	—	—	—	
Book Value/Share %	7.2	12.7	12.7	—	
Stock Total Return %	55.9	-16.5	-9.8	3.5	
+/- Industry	-19.7	-6.1	-6.3	-0.3	
+/- Market	-3.6	-10.1	-9.0	5.6	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	3.5	13.7	6.7
Return on Assets %	0.3	1.2	0.6	7.3
Revenue/Employee USD K	172.2	184.6	—	672.1
Compensation Exp/Rev	0.4	0.3	—	—
Operating Margin %	—	—	—	12.3
Net Margin %	7.4	23.6	12.4	8.2
Free Cash Flow/Rev %	—	—	—	0.1

Financial Position	12-08 USD Mil	09-09 USD Mil
	Loans (Gross)	383
Less: Allowances	4	4
Net Loans	379	388
Securities	130	169
Trading Assets	—	—
Intangibles	—	—
Other	37	111
Total Assets	546	668
Deposits	415	556
Short-Term Debt	—	19
Long-Term Debt	70	28
Other	6	7
Total Liabilities	491	610
Preferred Stock	11	11
Total Equity	56	58

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	20.4	14.6	22.2
Forward P/E	9.1	—	—	14.2
Price/Free Cash Flow	—	—	—	17.5
Dividend Yield %	—	—	1.6	1.8
Price/Book	0.9	1.5	1.3	2.2
Price/Sales	2.0	2.9	2.3	1.3
PEG Ratio	0.6	—	—	1.7

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	Stock Performance
Total Return %	-30.5	100.9	42.7	14.2	19.5	21.8	-2.5	-14.8	-33.1	-35.0	52.2	Total Return %
+/- Market	-20.4	113.9	66.1	-12.2	10.5	18.8	-16.1	-18.3	5.4	-58.4	49.1	+/- Market
+/- Industry	—	—	—	—	—	—	—	—	—	—	0.0	+/- Industry
Dividend Yield %	—	29	42	46	58	70	70	60	40	28	43	Dividend Yield %
Market Cap USD Mil	—	—	—	—	—	—	—	—	—	—	—	Market Cap USD Mil

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
Net Interest Inc USD Mil	6	7	8	9	10	12	15	18	18	16	17	Net Interest Inc USD Mil
Fee Income	1	1	2	2	3	3	3	3	3	3	4	Fee Income
Oper Income USD Mil	—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
Net Income USD Mil	1	2	2	3	3	4	5	5	5	3	2	Net Income USD Mil
Earnings Per Share USD	—	0.40	0.49	0.60	0.72	0.87	1.03	1.21	1.22	0.59	0.33	Earnings Per Share USD
Dividends USD	—	—	—	—	—	—	—	—	—	—	—	Dividends USD
Shares Mil	—	3	4	4	4	4	4	4	4	4	4	Shares Mil
Book Value Per Share USD	—	4.14	4.97	5.80	6.23	7.01	8.09	9.36	10.04	9.87	9.87	Book Value Per Share USD
Assets USD Mil	158	181	223	269	293	336	373	393	429	546	668	Assets USD Mil
Total Equity USD Mil	12	15	17	21	24	27	30	35	41	56	58	Total Equity USD Mil
Free Cash Flow	—	-1	0	-1	1	1	2	0	0	-12	-13	Free Cash Flow

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
Return on Assets %	—	1.0	1.1	1.1	1.1	1.2	1.3	1.4	1.3	0.6	0.3	Return on Assets %
Return on Equity %	—	12.5	13.2	14.0	14.5	15.2	16.1	16.4	14.3	6.5	3.5	Return on Equity %
Net Margin %	21.0	21.5	22.5	24.4	26.0	25.5	25.4	26.2	26.7	14.0	7.4	Net Margin %
Asset Turnover	—	0.05	0.05	0.04	0.04	0.05	0.05	0.05	0.05	0.04	0.04	Asset Turnover
Financial Leverage	—	11.9	12.8	12.8	12.4	12.5	12.5	11.2	10.5	12.4	14.4	Financial Leverage

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
Net Loans USD Mil	—	—	131	161	178	219	254	276	302	379	388	Net Loans USD Mil
Long-Term Debt USD Mil	—	—	16	18	21	30	34	41	54	70	28	Long-Term Debt USD Mil
Deposits USD Mil	134	138	184	219	245	277	306	313	329	415	556	Deposits USD Mil

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Valuation
Price/Earnings	9.1	14.9	17.3	16.5	16.4	16.9	14.0	11.7	16.3	13.9	20.4	Price/Earnings
P/E vs. Market	—	0.6	0.9	0.8	0.9	1.0	0.8	0.7	1.5	0.7	1.1	P/E vs. Market
Price/Sales	1.8	3.3	2.1	4.3	4.2	4.3	3.6	3.1	2.3	1.4	2.0	Price/Sales
Price/Book	—	1.7	2.0	2.0	2.2	2.4	2.0	1.5	0.9	0.6	0.9	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	4.9	5.0	5.5	5.6		
Prior Year Period	5.1	4.8	4.8	5.2		
Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-3.7	5.4	13.5	8.1		
Prior Year Period	1.0	-6.1	-2.8	0.0		
Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	0.07	0.07	0.08	0.10		
Prior Year Period	0.22	0.18	0.16	0.17		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
1st Constitution Ban	43	21	20.4	3.5
Bank of America Corp	171748	119643	—	-1.3
PNC Financial Serv	26958	13582	23.6	3.5

Major Fund Holders		% of shares
DFA US Micro Cap I		0.33
DFA US Small Cap Value I		0.27
DFA US Core Equity 2 I		0.06

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MANGANO ROBERT F	President and CEO	242,654	17 Dec 2009	-
CROW CHARLES S III	Director	15,344	22 Feb 2010	-

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
DFA US Micro Cap I	QQ	0.33	0.00	0	30 Nov 2009
DFA US Small Cap Value I	QQ	0.27	0.00	0	30 Nov 2009
DFA US Core Equity 2 I	QQQ	0.06	0.00	0	30 Nov 2009
DFA US Vector Equity I	QQ	0.05	0.00	0	30 Nov 2009
DFA US Small Cap I	QQQ	0.04	0.00	0	30 Nov 2009

#### Concentrated Holders

NA	NA	NA	NA	NA
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### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA	NA	NA	NA	NA	NA

#### Top 5 Sellers

NA	NA	NA	NA	NA
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## Industry Focus: US Regional Banks

### Our Outlook for Regional Banks

01 June 2009

Jim Sinegal  
Senior Stock Analyst

A new normal or  
back to the future?

Following the conclusion of the Supervisory Capital Assessment Program stress tests and the resulting infusions of new capital into many banks, investors' focus has shifted from the banks' ability to survive the current downturn to their potential earnings power on the other side. Some sources of profits, such as securitization, already appear to be relics of the distant past. Similarly, excessive leverage is unlikely to return for at least a decade, and the need for major changes in the regulatory system is painfully obvious. Although the specific changes to come are difficult to predict, we think some helpful generalizations can be made after a simple examination of banking industry dynamics.

### Competition Is Here to Stay

In our opinion, regional banking is very much a commodity industry. Competition is generally intense, and there are few barriers to entry, aside from the approval of regulators. While financial innovations like CDOs, credit derivatives, and other products temporarily boosted profitability, nothing prevented industry participants from competing away excess profits resulting from these new products--in fact, a strong case can be made that competitive forces led to the demise of several financial companies and virtually the entire "shadow banking" system. This comes as no surprise--any student in a freshman microeconomics course knows that excess profits unprotected by an economic moat will eventually be competed away. Similarly, when industry profits decrease below cost of capital, firms will exit through failure, acquisition, or other means. We therefore believe profits across the banking industry should once again approximate costs of capital once the crisis is resolved.

As in all commodity industries, companies that excel at controlling costs--operating, credit, and funding--should be able to continue earning excess profits. Wells Fargo's WFC extremely low cost of deposits is a perfect example

of this, as is the company's history of superior underwriting. In other cases, banks benefit from high-return businesses other than banking. PNC Financial PNC has a profitable fund servicing business, US Bancorp USB owns a payment processing operation, and both have profitable wealth management arms. The low capital requirements of these service businesses tend to boost overall returns as well, and their relative stability helps to keep these banks from venturing too far afield in search of higher returns. It's therefore not surprising that these narrow-moat banks have fared better than most in recent months. We don't believe the advantages developed by these companies over many years are likely to disappear anytime soon, and we expect that these banks are likely to continue producing returns well in excess of their cost of capital.

### Regulation Will Not Affect All Participants Equally

Much has been made of the prospects for increased regulation of the banking industry, and for good reason. Lax regulation of subprime mortgages, derivatives, and other areas of the financial system no doubt contributed to the mess plaguing the financial system.

Some industry observers have put forth the possibility that banking could begin to resemble a utility in the future, rather than the profitable growth industry it has been over the past few decades. In our opinion, this comparison is tenuous at best. As Josh Peters, equities strategist and editor of Morningstar DividendInvestor points out in "The Ultimate Dividend Playbook", utilities are naturally endowed with a substantial economic moat. In most cases, a particular utility is the sole supplier to a geographic area. Additionally, utilities are capital intensive, creating a sizable barrier to entry. It should be obvious that the banking business has neither of these features. Utility regulation is meant to limit profitability and protect customers--the banking industry suffered from the opposite problem. It is now obvious that the banking sector's problem was not excess returns, but in fact the inability to generate acceptable returns without taking on unacceptable risk.

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## Industry Focus: US Regional Banks

Furthermore, any attempts by regulators to control pricing in the banking industry are likely to end in disaster. On the other hand, regulation meant to reduce leverage and excessive risk-taking is almost a certainty. In assessing the effects of this change on a particular bank, it is important to identify the source of past returns. In the case of banks like Flagstar Bancorp FBC, excessive leverage and overreliance on new financial products undoubtedly were the factors responsible for the 20%-plus returns on equity it achieved earlier in the decade. However, Wells Fargo was earning 20% returns on equity in the 1980s, long before irrational exuberance took hold across the lending industry, and the superior economic characteristics of the business outlined above are still in place. In our opinion, banks like Wells are therefore less likely to suffer from a regulatory crackdown.

Furthermore, as leverage is reduced across the industry, the irresistible forces of competition will eventually drive industry returns back to an appropriate level, as firms react to the new operating environment. In fact, lending spreads are already the highest they have been in years, as rational competition has returned to the market. New regulatory policies could also benefit banks--higher capital and loan loss reserve requirements should help smooth the boom/bust cycle that periodically plagues the banking industry. Making the banking system safer will not necessarily reduce profitability--the pharmaceutical industry is heavily regulated for safety, yet quite profitable. Finally, regulators must also consider the second-order effects of overly harsh new requirements. If profitability is artificially limited, investors will be reluctant to provide the capital necessary to keep the financial system--and the economy--functioning. From a macroeconomic perspective, growth is likely to be muted as the economy deleverages, but how will the system recover if future growth and profitability are hampered by regulation?

### It's Not Time to Swing for the Fences

The implications of the coming changes are most serious for the weakest banks. Those that struggled to achieve their

cost of capital during the boom years will face enormous pressures as the recession continues, and many will likely exit or be acquired at distressed prices, as assets are transferred to more productive uses. The mismanaged assets of Washington Mutual and National City are no doubt better off in the hands of J.P. Morgan Chase JPM and PNC, and we expect this trend to continue for some time. Banks that could not achieve satisfactory returns in the boom years will surely fare even worse without the tail winds provided by excessive leverage, perfect credit, and structured products. While a few of these weaker banks are likely to survive and perhaps experience a spectacular increase in stock price from current levels, we place these types of bets firmly in the category of speculation. Some of these players will surely not make it.

### Stick to the High Ground, and Focus on Moats

On the other hand, the strongest regional and superregional banks--those with established economic moats--could benefit from the changes to come. The ability to cheaply acquire assets and market share from weakened or failed competitors could result in a nice boost to short-term growth, and the reputational benefits from passing through the crisis relatively unscathed could last for a long time, further strengthening competitive advantages where they already exist. Though Warren Buffett popularized the concept of economic moats, our own research also suggests that moats are a key factor in achieving investment success. In a highly competitive industry like banking, where truly durable competitive advantages are rare, moats are often even more important. For this reason, we recommend that investors focus their attentions on banks with narrow or wide moats and strong management teams, leaving the low-priced lottery tickets in the industry for others.