ConnectOne Bancorp, Inc.
Form 10-Q
May 12, 2014

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2014

or

o **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 **001-35812**

CONNECTONE BANCORP, INC.

(Exact name of Registrant as Specified in Its Charter)

NEW JERSEY
(State or other jurisdiction of incorporation or organization)

26-1998619
(I.R.S. Employer Identification Number)

301 Sylvan Avenue
Englewood Cliffs, New Jersey 07632
(Address of Principal Executive Offices)

(201) 816-8900
(Issuer's Telephone Number, including area code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation SD-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes S No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and small reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £ Accelerated filer £ Non-accelerated filer S Smaller reporting company £

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

As of May 12, 2014 there were 5,122,047 shares of common stock, no par value, outstanding.

ConnectOne Bancorp, Inc.
FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ConnectOne Bancorp, Inc.

CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31, 2014	December 31, 2013
	(unaudited)	
Assets		
Cash and due from banks	$3,005	$2,907
Interest-bearing deposits with banks	42,325	31,459
Cash and cash equivalents	45,330	34,366
Securities available for sale	27,199	27,589
Securities held to maturity, fair value of $943 at 2014 and $1,077 at 2013	898	1,027
Loans held for sale	792	575
Loans receivable	1,245,363	1,151,904
Less: Allowance for loan losses	(17,035)	(15,979)
Net loans receivable	1,228,328	1,135,925
Investment in restricted stock, at cost	9,411	7,622
Bank premises and equipment, net	7,385	7,526
Accrued interest receivable	4,235	4,102
Other real estate owned	870	1,303
Goodwill	260	260
Bank-owned life insurance	15,334	15,191
Deferred taxes	7,539	7,614
Other assets	142	128
Total assets	$1,347,723	$1,243,228

(continued)

See accompanying notes to unaudited consolidated financial statements.

ConnectOne Bancorp, Inc.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2014 (unaudited)	December 31, 2013
Liabilities		
Deposits		
Noninterest-bearing	$236,872	$216,804
Interest-bearing	790,884	749,003
Total deposits	1,027,756	965,807
FHLB Borrowings	177,301	137,558
Accrued interest payable	2,836	2,762
Capital lease obligation	3,081	3,107
Other liabilities	3,741	3,866
Total liabilities	1,214,715	1,113,100
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock (Series A), no par value; $20 liquidation value; authorized 125,000 shares; no shares issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Preferred stock (Series B), no par value; $20 liquidation value; authorized 875,000 shares; no shares issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Preferred stock (Series C), no par value; $1,000 liquidation value; authorized 7,500 shares; no shares issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Common stock and surplus, no par value; authorized 10,000,000 shares at March 31, 2014 and December 31, 2013; issued and outstanding 5,122,047 at March 31, 2014 and 5,106,455 at December 31, 2013	99,466	99,315
Retained earnings	33,539	30,931
Accumulated other comprehensive income/(loss)	3	(118)
Total stockholders' equity	133,008	130,128
Total liabilities and stockholders' equity	$1,347,723	$1,243,228

See accompanying notes to unaudited consolidated financial statements.

ConnectOne Bancorp, Inc.

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except for share and per share data)

	Three Months Ended March 31,	
	2014	2013
Interest income		
Loans receivable, including fees	$13,455	$10,696
Securities	227	195
Other interest income	22	21
Total interest income	13,704	10,912
Interest expense		
Deposits	1,401	1,146
FHLB borrowings	561	334
Capital lease	47	48
Total interest expense	2,009	1,528
Net interest income	11,695	9,384
Provision for loan losses	1,300	925
Net interest income after provision for loan losses	10,395	8,459
Non-interest income		
Service fees	87	100
Gains on sales of loans	41	83
Income on bank owned life insurance	144	—
Other income	77	76
Total non-interest income	349	259
Non-interest expenses		
Salaries and employee benefits	3,091	2,480
Occupancy and equipment	829	729
Professional fees	378	271
Advertising and promotion	99	103
Data processing	517	447
Merger related expenses	923	—
Other expenses	835	711
Total non-interest expenses	6,672	4,741
Income before income tax expense	4,072	3,977
Income tax expense	1,464	1,641
Net income	$2,608	$2,336
Earnings per common share:		
Basic	$0.52	$0.58
Diluted	0.50	0.56
Weighted average common shares outstanding:		

Basic	5,035,521	4,055,908
Diluted	5,216,599	4,178,214

See accompanying notes to unaudited consolidated financial statements.

ConnectOne Bancorp, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(in thousands)

	Three Months Ended March 31,	
	2014	2013
Net income	$2,608	$2,336
Unrealized holding (losses)/gains on securities available for sale arising during the period	202	(122)
Tax effect	81	(49)
Other comprehensive loss	121	(73)
Comprehensive income	$2,729	$2,263

See accompanying notes to unaudited consolidated financial statements.

ConnectOne Bancorp, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)

	Common Stock and Surplus	Preferred Stock, Series A	Preferred Stock, Series B	Preferred Stock, Series C	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2013	$ 51,205	$ —	$ —	$ —	$ 20,661	$ 496	$ 72,362
Net income	—	—	—	—	10,270		10,270
Other comprehensive loss, net of taxes	—	—	—	—	—	(614)	(614)
Issuance of 1,840,000 shares, net of expenses	47,715	—	—	—	—	—	47,715
Grant of 100,238 restricted stock awards and performance units	—	—	—	—	—	—	—
Equity-based compensation	395	—	—	—	—	—	395
Balance at December 31, 2013	99,315	—	—	—	30,931	(118)	130,128
Net income	—	—	—	—	2,608	—	2,608
Other comprehensive income, net of taxes	—	—	—	—	—	121	121
Grant of 15,592 restricted stock awards	—	—	—	—	—	—	—
Equity-based compensation	151	—	—	—	—	—	151
Balance at March 31, 2014 (unaudited)	$ 99,466	$ —	$ —	$ —	$ 33,539	$ 3	$ 133,008

See accompanying notes to unaudited consolidated financial statements.

ConnectOne Bancorp, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Three months ended March 31, 2014	2013
Cash flows from operating activities		
Net income	$2,608	$2,336
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,300	925
Depreciation and amortization	305	297
Net amortization of securities discounts and premiums	4	20
Equity-based compensation	151	99
Proceeds from sale of loans	2,246	4,352
Originations of loans held for sale	(2,422)	(4,149)
Gain on sales of loans	(41)	(83)
Increase in bank-owned life insurance	(144)	—
Increase in accrued interest receivable	(133)	(157)
Increase (decrease) in accrued interest payable	74	(126)
Increase (decrease) in other liabilities	(125)	1,314
(Increase) decrease in other assets	(13)	205
Net cash provided by operating activities	3,810	5,033
Cash flows from investing activities		
Net increase in loans	(93,703)	(52,978)
Maturities, calls and principal repayments of securities held to maturity and available for sale	711	1,851
Proceeds from sale of other real estate owned	433	—
Net (increase) decrease in investments in restricted stock, at cost	(1,789)	228
Purchases of bank premises and equipment	(164)	(701)
Net cash used in investing activities	(94,512)	(51,600)
Cash flows from financing activities		
Net increase in deposits	61,949	29,760
Proceeds from FHLB borrowings	40,000	5,000
Repayment of FHLB borrowings	(257)	(10,162)
Net proceeds from initial public offering	—	47,715
Decrease in capital lease obligation	(26)	(18)
Net cash provided by financing activities	101,666	72,295
Net increase in cash and cash equivalents	10,964	25,728
Cash and cash equivalents - beginning	34,366	50,629
Cash and cash equivalents - ending	$45,330	$76,357
Supplementary cash flows information:		
Interest paid	$1,935	$1,654
Income taxes paid	$1,275	$900

See accompanying notes to unaudited consolidated financial statements.

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include ConnectOne Bancorp, Inc. (“The Parent Corporation”) and its wholly owned subsidiary, ConnectOne Bank (“the Bank” and, collectively with the Parent Corporation and the Parent Corporation’s other direct subsidiaries, “the Company.”)

The Company provides financial services through its offices in Bergen, Hudson, Monmouth, and Essex counties, New Jersey. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from business operations. There are no significant concentrations of loans to any one industry or customer. However, the customers’ ability to repay their loans is dependent on the cash flows, real estate and general economic conditions in the area.

The consolidated financial information included herein as of and for the periods ended March 31, 2014 and 2013 is unaudited. The accompanying unaudited consolidated financial statements included herein have been prepared by the Company in accordance with U.S. generally accepted accounting principles and pursuant to the rules and regulations of the Securities and Exchange Commission and reflect all adjustments which, in the opinion of management, are considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. All adjustments made were of a normal and recurring nature. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SECURITIES

The amortized cost, gross unrealized gains and losses and fair value of securities available for sale at March 31, 2014 and December 31, 2013, are as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014				
Securities available for sale:				
U.S. Treasury securities	$ 1,937	$ —	$ (84)	$ 1,853
States and political subdivisions	4,412	2	(32)	4,382
Asset-backed securities:				
Residential mortgages	9,038	333	(87)	9,284
Student loans	4,451	7	(11)	4,447
Small business loans	1,356	—	(12)	1,344
Equity securities	6,000	—	(111)	5,889
	$ 27,194	$ 342	$ (337)	$ 27,199
December 31, 2013				
Securities available for sale:				
U.S. Treasury securities	$ 1,935	$ —	$ (132)	$ 1,803
States and political subdivisions	4,415	—	(80)	4,335
Asset-backed securities:				
Residential mortgages	9,452	333	(128)	9,657
Student loans	4,568	—	(20)	4,548
Small business loans	1,414	—	(23)	1,391
Equity securities	6,000	—	(145)	5,855
	$ 27,784	$ 333	$ (528)	$ 27,589

The amortized cost, gross unrecognized gains and losses and fair value of securities held to maturity at March 31, 2014 and December 31, 2013, are as follows (dollars in thousands):

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
March 31, 2014				
Securities held to maturity:				

Asset-backed securities:				
Residential mortgages	$ 898	$ 45	$ —	$943
December 31, 2013				
Securities held to maturity:				
Asset-backed securities:				
Residential mortgages	$ 1,985	$ 99	$ —	$2,084

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SECURITIES

(continued)

The amortized cost and fair value of debt securities available for sale and held to maturity at March 31, 2014, by contractual maturity, are shown below (dollars in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities do not have a specific maturity and are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
March 31, 2014				
Due in one year or less	$1,001	$1,002	$—	$ —
Due after one year through five years	—	—	—	—
Due after five years through ten years	3,849	3,733	—	—
Due after ten years	1,499	1,500	—	—
Asset-backed securities:				
Residential mortgages	9,038	9,284	898	943
Student loans	4,451	4,447	—	—
Small business loans	1,356	1,344	—	—
	$21,194	$21,310	$898	$ 943

There were no sales of available for sale securities for the quarters ended March 31, 2014 and 2013.

Securities with a carrying value of $204,000 and $215,000 at March 31, 2014 and December 31, 2013, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

The following table summarizes securities with unrealized losses at March 31, 2014 and December 31, 2013, aggregated by major security type and length of time in a continuous unrealized loss position (in thousands).

	Less than 12 Months	Total

			12 Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2014						
Securities available for sale:						
U.S. Treasury securities	$1,853	$ (84)	$ —	$ —	$1,853	$ (84)
States and political subdivisions	1,880	(32)	—	—	1,880	(32)
Asset-backed securities:						
Residential mortgages	2,275	(87)	—	—	2,275	(87)
Student loans	2,495	(11)	—	—	2,495	(11)
Small business loans	1,344	(12)	—	—	1,344	(12)
Equity securities	5,889	(111)	—	—	5,889	(111)
	$15,736	$ (337)	$ —	$ —	$15,736	$ (337)

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SECURITIES

(continued)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
Securities available for sale:						
U. S. Treasury securities	$1,803	$ (132)	$ —	$ —	$1,803	$ (132)
States and political subdivisions	3,412	(80)	—	—	3,412	(80)
Asset-backed securities:						
Residential mortgages	4,284	(128)	—	—	4,284	(128)
Student loans	4,548	(20)	—	—	4,548	(20)
Small business loans	1,391	(23)	—	—	1,391	(23)
Equity securities	5,855	(145)	—	—	5,855	(145)
	$21,293	$ (528)	$ —	$ —	$21,293	$ (528)

Unrealized losses on available for sale securities have not been recognized into income because the securities are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

NOTE 3 – LOANS RECEIVABLE

The composition of loans receivable (which excludes loans held for sale) at March 31, 2014 and December 31, 2013 are as follows (dollars in thousands):

	March 31, 2014	December 31, 2013
Commercial	$223,324	$ 203,690
Commercial real estate	835,169	769,121
Commercial construction	69,420	59,877
Residential real estate	83,243	85,568
Home equity	32,665	32,504

Consumer	2,348	2,340
Gross loans	1,246,169	1,153,100
Unearned net origination fees and costs	(806)	(1,196)
Loans receivable	1,245,363	1,151,904
Less: Allowance for loan losses	(17,035)	(15,979)
Net loans receivable	$1,228,328	$ 1,135,925

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS RECEIVABLE

(continued)

The portfolio classes in the above table have unique risk characteristics with respect to credit quality:

- The repayment of commercial loans is generally dependent on the creditworthiness and cash flow of borrowers, and if applicable, guarantors, which may be negatively impacted by adverse economic conditions. While the majority of these loans are secured, collateral type, marketing, coverage, valuation and monitoring is not as uniform as in other portfolio classes and recovery from liquidation of such collateral may be subject to greater variability.

- Payment on commercial real estate loans is driven principally by operating results of the managed properties or underlying business and secondarily by the sale or refinance of such properties. Both primary and secondary sources of repayment, and value of the properties in liquidation, may be affected to a greater extent by adverse conditions in the real estate market or the economy in general.

- Properties underlying commercial construction loans often do not generate sufficient cash flows to service debt and thus repayment is subject to ability of the borrower and, if applicable, guarantors, to complete development or construction of the property and carry the project, often for extended periods of time until the property can be sold. As a result, the performance of these loans is contingent upon future events whose probability at the time of origination is uncertain.

- The ability of borrowers to service debt in the residential, home equity and consumer loan portfolios is generally subject to personal income which may be impacted by general economic conditions, such as increased unemployment levels. These loans are predominately collateralized by first and/or second liens on single family properties. If a borrower cannot maintain the loan, the Company’s ability to recover against the collateral in sufficient amount and in a timely manner may be significantly influenced by market, legal and regulatory conditions.

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS RECEIVABLE

(continued)

The following table represents the allocation of allowance for loan losses and the related loans by loan portfolio segment disaggregated based on the impairment methodology at March 31, 2014 and December 31, 2013 (dollars in thousands):

	Commercial	Commercial Real Estate	Commercial Construction	Residential Real Estate	Home Equity Lines of Credit	Consumer	Unallocated	Total
March 31, 2014								
Allowance for loan losses:								
Individually evaluated for impairment	$ 1,456	$ 80	$ —	$ —	$—	$ —	$ —	$ 1,536
Collectively evaluated for impairment	3,267	9,259	740	1,217	701	52	263	15,499
Total	$ 4,723	$ 9,339	$ 740	$ 1,217	$ 701	$ 52	$ 263	$ 17,035
Gross loans:								
Individually evaluated for impairment	$ 5,743	$ 6,106	$ —	$ 2,784	$ 765	$ —	$ —	$ 15,398
Collectively evaluated for impairment	217,581	829,063	69,420	80,459	31,900	2,348	—	1,230,771
Total	$ 223,324	$ 835,169	$ 69,420	$ 83,243	$ 32,665	$ 2,348	$ —	$ 1,246,169
December 31, 2013								
Allowance for loan losses:								
Individually evaluated for impairment	$ 1,440	$ 122	$ —	$ —	$—	$ —	$ —	$ 1,562
Collectively evaluated for impairment	2,998	8,622	639	1,248	698	52	160	14,417
Total	$ 4,438	$ 8,744	$ 639	$ 1,248	$ 698	$ 52	$ 160	$ 15,979

Gross loans:								
Individually evaluated for impairment	$ 5,813	$ 6,137	$ —	$ 3,029	$ 767	$ —	$ —	$ 15,746
Collectively evaluated for impairment	197,877	762,984	59,877	82,539	31,737	2,340	—	1,137,354
Total	$ 203,690	$ 769,121	$ 59,877	$ 85,568	$ 32,504	$ 2,340	$ —	$ 1,153,100

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS RECEIVABLE

(continued)

The following tables present information related to impaired loans by class as of March 31, 2014, December 31, 2013 and March 31, 2013 and for the quarters ended March 31, 2014 and 2013 and for the year ended December 31, 2013 (dollars in thousands):

	Unpaid Principal Balance	Recorded Investment (1)	Allowance for Loan Losses Allocated	Average Recorded Investment (1)	Interest Income Recognized	Cash Basis Interest Recognized
March 31, 2014						
With no related allowance recorded:						
Commercial	$ 929	$ 801	—	$ 819	$ —	$ —
Commercial real estate	5,244	4,870	—	4,955	22	—
Commercial construction	—	—	—	—	—	—
Residential real estate	3,641	2,817	—	3,202	8	—
Home equity lines of credit	770	765	—	771	—	—
Consumer	—	—	—	—	—	—
	10,584	9,253	—	9,747	30	—
With an allowance recorded:						
Commercial	5,018	4,949	1,456	5,077	17	—
Commercial real estate	1,394	1,403	80	1,447	21	—
Commercial construction	—	—	—	—	—	—
Residential real estate	—	—	—	—	—	—
Home equity lines of credit	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
	6,412	6,352	1,536	6,524	38	—
Total	$ 16,996	$ 15,605	$ 1,536	$ 16,271	$ 68	$ —
December 31, 2013						
With no related allowance recorded:						
Commercial	$ 934	$ 809	—	$ 830	$ 15	$ —
Commercial real estate	4,712	4,348	—	4,479	63	—
Commercial construction	—	—	—	—	—	—

Residential real estate	3,643	3,055	—	3,510	36	—
Home equity lines of credit	771	768	—	567	7	—
Consumer	—	—	—	—	—	—
	10,060	8,980	—	9,386	121	—
With an allowance recorded:						
Commercial	5,057	5,016	1,440	5,192	122	60
Commercial real estate	1,950	1,959	122	2,042	119	—
Commercial construction	—	—	—	—	—	—
Residential real estate	—	—	—	—	—	—
Home equity lines of credit	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
	7,007	6,975	1,562	7,234	241	60
Total	$ 17,067	$ 15,955	$ 1,562	$ 16,620	$ 362	$ 60
March 31, 2013						
With no related allowance recorded:						
Commercial	$ 273	$ 276	—	$ 286	$ —	$ —
Commercial real estate	2,392	2,434	—	1,666	16	—
Commercial construction	—	—	—	—	—	—
Residential real estate	3,023	3,068	—	3,058	—	—
Home equity lines of credit	119	121	—	121	1	—
Consumer	—	—	—	—	—	—
	5,807	5,899	—	5,131	17	—
With an allowance recorded:						
Commercial	2,862	2,862	648	2,895	32	32
Commercial real estate	3,274	3,326	612	3,442	35	—
Commercial construction	—	—	—	—	—	—
Residential real estate	639	647	45	660	8	—
Home equity lines of credit	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
	6,775	6,835	1,305	6,997	75	32
Total	$ 12,582	$ 12,734	$ 1,305	$ 12,128	$ 92	$ 32

(1) The recorded investment in loans include accrued interest receivable and other capitalized costs such as real estate taxes paid on behalf of the borrower and loan origination fees, net.

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS RECEIVABLE

(continued)

The following table presents nonaccrual loans and loans past due 90 days or greater and still accruing by class of loans (dollars in thousands):

	Nonaccrual Loans		Loans Past Due Over 90 Days Still Accruing	
	March 31, 2014	December 31 2013	March 31, 2014	December 31 2013
Commercial	$3,512	$ 3,582	$ —	$ —
Commercial real estate	2,434	2,445	—	—
Commercial construction	—	—	—	—
Residential real estate	2,137	2,381	—	—
Home equity lines of credit	765	767	—	—
Consumer	—	—	—	—
Total	$8,848	$ 9,175	$ —	$ —

The following tables present past due and current loans by the loan portfolio class (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Gross Loans
March 31, 2014						
Commercial	$—	$—	$ 628	$628	$222,696	$223,324
Commercial real estate	1,928	—	1,394	3,322	831,847	835,169
Commercial construction	—	—	—	—	69,420	69,420
Residential real estate	647	321	1,524	2,492	80,751	83,243
Home equity lines of credit	—	—	651	651	32,014	32,665
Consumer	—	—	—	—	2,348	2,348

Total	$2,575	$321	$4,197	$7,093	$1,239,076	$1,246,169
December 31, 2013						
Commercial	$—	$—	$634	$634	$203,056	$203,690
Commercial real estate	—	—	1,394	1,394	767,727	769,121
Commercial construction	—	—	—	—	59,877	59,877
Residential real estate	—	431	1,763	2,194	83,374	85,568
Home equity lines of credit	—	—	653	653	31,851	32,504
Consumer	—	19	—	19	2,321	2,340
Total	$—	$450	$4,444	$4,894	$1,148,206	$1,153,100

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS RECEIVABLE

(continued)

There were no troubled debt restructurings that occurred during the quarters ended March 31, 2014 and 2013. There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the quarters ended March 31, 2014 and 2013. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the quality and realizable value of collateral, if any, and the ability of borrowers to service their debts such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed whenever a credit is extended, renewed or modified, or when an observable event occurs indicating a potential decline in credit quality, and no less than annually for large balance loss. The Bank used the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the Bank's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment and liquidation of the debt. They are characterized by distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Normal payment from the borrower is in jeopardy, although loss of principal, while still possible, is not imminent.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

The following table presents the risk category of loans by class of loans based on the most recent analysis performed as of March 31, 2014 and December 31, 2013 (dollars in thousands):

Credit Risk Profile by Internally Assigned Grades	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2014					
Commercial	$204,463	$13,969	$ 4,892	$ —	$223,324
Commercial real estate	821,711	1,934	11,524	—	835,169
Commercial construction	69,420	—	—	—	69,420
Total	$1,095,594	$15,903	$ 16,416	$ —	$1,127,913
December 31, 2013					
Commercial	$184,340	$14,377	$ 4,973	$ —	$203,690
Commercial real estate	755,533	1,947	11,641	—	769,121
Commercial construction	59,877	—	—	—	59,877
Total	$999,750	$16,324	$ 16,614	$ —	$1,032,688

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS RECEIVABLE

(continued)

Residential real estate, home equity lines of credit, and consumer loans are not rated. The Company evaluates credit quality of those loans by aging status of the loan and by payment activity, which was previously presented.

The following table presents the activity in the Company's allowance for loan losses by class of loans (dollars in thousands):

	Commercial	Commercial Real Estate	Commercial Construction	Residential Real Estate	Home Equity Lines of Credit	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance at January 1, 2014	$ 4,438	$ 8,744	$ 639	$ 1,248	$ 698	$ 52	$ 160	$ 15,979
Charge-offs	—	—	—	(239)	—	(5)	—	(244)
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	285	595	101	208	3	5	103	1,300
Total ending balance at March 31, 2014	$ 4,723	$ 9,339	$ 740	$ 1,217	$ 701	$ 52	$ 263	$ 17,035
Allowance for loan losses:								
Beginning balance at January 1, 2013	$ 2,402	$ 7,745	$ 633	$ 1,542	$ 617	$ 41	$ 266	$ 13,246
Charge-offs	—	(452)	—	—	(79)	(3)	—	(534)
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	842	283	(290)	22	87	(5)	(14)	925
Total ending balance at March 31, 2013	$ 3,244	$ 7,576	$ 343	$ 1,564	$ 625	$ 33	$ 252	$ 13,637

NOTE 4 - STOCK OPTION PLANS AND EQUITY COMPENSATION PLAN

At March 31, 2014, there were 91,393 shares available for awards under the Company's equity plans. Awards may be in the form of options, restricted stock or other equity awards. A summary of the stock option activity in the Company's equity plans for the three months ended March 31, 2014 are as follows:

	Shares	Weighted Average Exercised Price	Weighted Average Remaining Contractural Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	300,438	$ 12.32		
Granted	—	—		
Exercised	—	—		
Forfeited	(606)	18.18		
Expired	—	—		
Outstanding at March 31, 2014	299,832	$ 12.31	$ 3.16	$11,008,412
Fully vested and expected to vest	299,832	$ 12.31	$ 3.16	$11,008,412
Exercisable at March 31, 2014	298,416	$ 12.28	$ 3.12	$10,946,236

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - STOCK OPTION PLANS AND EQUITY COMPENSATION PLAN

(continued)

As of March 31, 2014 and December 31, 2013, there were no material unrecognized compensation costs related to nonvested stock options granted under the Company's plans. Aggregate intrinsic value is based on a fair value share price of $48.96, which is derived from the closing price of our common stock at March 31, 2014. There were no stock options granted during the first quarter of 2014.

In conjunction with the Company's equity plans , the Company granted restricted shares to certain executive officers. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date. The fair value of the stock granted was based on the closing market price of our common stock as of the grant date. Generally, grants of restricted shares vest one-third, each, on the first, second and third anniversaries of the grant date.

A summary of changes in the Company's nonvested restricted shares for the quarter ended March 31, 2014 is as follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2013	19,275	$ 21.90
Awarded	15,592	38.81
Vested	(7,188)	21.57
Expired	—	—
Nonvested at March 31, 2014	26,679	$ 31.51

As of March 31, 2014, there was $811,000 of total unrecognized compensation cost related to nonvested shares granted under the plans. The cost is expected to be recognized over a weighted average period of 26.3 months. The total fair value of shares vested during the quarter ended March 31, 2014 was $321,000.

On August 7, 2013, the Company granted to various key employees performance unit awards, with each unit entitling the holder to one share of the Company's common stock contingent upon the Company meeting or exceeding certain return on asset targets over the course of a three-year period commencing July 1, 2013. Under the agreement, and assuming the Company has met or exceeded the applicable targets, grants of performance unit awards will vest one-third, each, on the third, fourth and fifth anniversaries of the grant date or an earlier date, in the event of a change in control, as defined in the agreement. At March 31, 2014, the specific number of shares related to performance unit awards that were expected to vest was 85,313, determined by actual performance in consideration of the established range of the performance targets, which is consistent with the level of expense currently being recognized over the vesting period. Should this expectation change, additional compensation expense could be recorded in future periods or previously recognized expense could be reversed. The maximum amount of performance unit awards is 102,375.

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - STOCK OPTION PLANS AND EQUITY COMPENSATION PLAN

(continued)

A summary of the status of unearned performance unit awards and the change during the period is presented in the table below:

	Shares	Weighted-Average Grant-Date Fair Value
Unearned at December 31, 2013	85,313	$ 32.35
Awarded	—	—
Forfeited	—	—
Expired	—	—
Unearned at March 31, 2014	85,313	$ 32.35

The company recognized $184,000 in stock-based compensation expenses for services rendered for the quarter ended March 31, 2014. At March 31, 2014, compensation cost of $2,323,000 related to nonvested awards not yet recognized is expected to be recognized over a weighted-average period of 3.2 years.

NOTE 5 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent weaknesses in any estimation technique. The estimated fair value amounts have been measured as of March 31, 2014 and December 31, 2013, and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period end.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(continued)

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2014 and December 31, 2013 are as follows (dollars in thousands):

Assets and Liabilities Measured on a Recurring Basis

Fair Value Measurements Using		
Quoted Prices in Active	Significant Other	Significant

	Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
March 31, 2014			
Securities:			
U.S. Treasury securities	$1,853	$ —	$ —
States and political subdivisions	—	4,382	—
Asset-backed securities:			
Residential mortgages	—	9,284	—
Student loans	—	4,447	—
Small business loans	—	1,344	
Equity securities	—	5,889	—
December 31, 2013			
Securities:			
U.S. Treasury securities	$1,803	$ —	$ —
States and political subdivisions	—	4,335	—
Asset-backed securities:			
Residential mortgages	—	9,657	—
Student loans	—	4,548	—
Small business loans	—	1,391	
Equity securities	—	5,855	—

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(continued)

Assets and Liabilities Measured on a Non-recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below (dollars in thousands):

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2014			
Impaired loans:			
Commercial real estate	$—	$ —	$ 1,828
Commercial	—	—	1,865
December 31, 2013			
Impaired loans:			
Commercial real estate	$—	$ —	$ 1,828
Commercial	—	—	1,865

As of March 31, 2014, impaired loans, which have a specific reserve and are measured for impairment using the fair value of the collateral, had an unpaid principal balance of $4,106,000 with a valuation allowance of $977,000, resulting in an additional provision for loan losses of $39,000 for the quarter ended March 31, 2014.

As of March 31, 2013, impaired loans, which have a specific reserve and are measured for impairment using the fair value of the collateral, had an unpaid principal balance of $3,913,000 with a valuation allowance of $657,000, resulting in an additional provision for loan losses of $76,000 for the quarter ended March 31, 2013.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2014 (dollars in thousands):

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Discount Range	Weighted Average
Impaired loans:					
Commercial real estate	$1,313	Sales comparison	Adjustments for differences between the comparable sales.	5% - 14 %	7 %
Commercial	$1,816	Sales comparison	Adjustments for differences between the comparable sales.	39 %	39 %

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(continued)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2013 (dollars in thousands):

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Discount Range		Weighted Average	
Impaired loans:							
Commercial real estate	$1,828	Sales comparison	Adjustments for differences between the comparable sales.	5% - 15	%	8	%
		Income approach	Adjustments for differences in net operating income expectations.	4	%	4	%
Commercial	$1,865	Sales comparison	Adjustments for differences between the comparable sales.	39	%	39	%

The carrying value and estimated fair value of financial instruments as of March 31, 2014 and December 31, 2013 are summarized below (dollars in thousands):

		Fair Value Measurements at March 31, 2014 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and due from banks	$3,005	$3,005	$—	$—
Interest bearing deposits	42,325	42,325	—	—

Securities available for sale	27,199	1,853	25,346	—
Securities held to maturity	898	—	943	—
FHLB stock	9,411	n/a	n/a	n/a
Loans held for sale	792	—	792	—
Loans receivable	12,45,363	—	—	12,43,636
Accrued interest receivable	4,235	—	77	4,158
Financial liabilities:				
Deposits				
Demand, NOW, money market and savings	$5,78,045	$5,78,045	$—	$—
Certificates of deposit	4,49,711	—	4,52,129	—
FHLB Borrowings	1,77,301	—	1,81,851	—
Accrued interest payable	2,836	—	2,836	—

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(continued)

		Fair Value Measurements at December 31, 2013 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and due from banks	$2,907	$2,907	$—	$—
Interest bearing deposits	31,459	31,459	—	—
Securities available for sale	27,589	1,803	25,786	—
Securities held to maturity	1,027	—	1,077	—
FHLB stock	4,744	n/a	n/a	n/a
Loans held for sale	575	—	583	—
Loans receivable, gross	11,51,904	—	—	11,51,870
Accrued interest receivable	4,102	—	99	4,003
Financial liabilities:				
Deposits				
Demand, NOW, money market and savings	$5,50,096	$5,50,096	$—	$—
Certificates of deposit	4,15,711	—	4,19,467	—
FHLB Borrowings	1,37,558	—	1,41,902	—
Accrued interest payable	2,762	—	2,762	—

The methods and assumptions, not previously presented, used to estimate fair values for the periods ended March 31, 2014 and December 31, 2013, are described as follows:

Cash and due from banks and interest bearing deposits: The carrying amounts of cash and short-term instruments approximate fair values and care classified as Level 1.

Loans: Fair value of loans, excluding loans held for sale, is estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously.

The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

FHLB Stock: It is not practical to determine the fair value of FHLB Stock due to restrictions placed on its transferrability.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 1 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(continued)

Long-term borrowings: Long-term borrowings consist of Federal Home Loan Bank of New York borrowings which are estimated using a discounted cash flow calculation that applies interest rates currently being offered to a schedule of aggregated expected monthly Federal Home Loan borrowings maturities.

Accrued interest receivable/payable: The carrying amounts of accrued interest approximate the fair value resulting in a Level 2 or Level 3 classification.

NOTE 6 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow (in thousands, except per share data):

	Three Months Ended March 31,	
	2014	2013
Basic		
Net income available to common stockholders	$2,608	$2,336
Weighted average common shares outstanding	5,036	4,056
Basic earnings per common share	$0.52	$0.58
Diluted		
Net income	$2,608	$2,336
Weighted average common shares outstanding for basic earnings per common share	5,036	4,056
Add: Dilutive effects of assumed exercises of stock options and stock awards	181	122
Average shares and dilutive potential common shares	5,217	4,178
Diluted earnings per common share	$0.50	$0.56

There were no stock options that resulted in anti-dilution for the periods presented.

NOTE 7 – PENDING MERGER

On January 20, 2014, the Company, entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Center Bancorp, Inc. (NASDAQ: “CNBC”) (“Center Bancorp”). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, the Company will merge with and into Center Bancorp, with Center Bancorp continuing as the surviving entity (the “Merger”). The Merger Agreement also provides that, immediately following the consummation of the Merger, Union Center National Bank, a commercial bank chartered pursuant to the laws of the United States (“Union Center”) and a wholly-owned subsidiary of Center Bancorp, will merge with and into the Bank, with the Bank continuing as the surviving bank. Upon completion of the Merger, each share of common stock of the Company will be converted into and become the right to receive 2.6 shares of common stock, no par value per share, of Center Bancorp. Immediately after consummation of the transaction, the directors of the resulting corporation and the resulting bank shall consist of six individuals who previously served as Center Bancorp Directors and six Directors who previously served as Directors of the Company, each to hold office in accordance with the Amended and Restated Certificate of Incorporation and the by-laws of the surviving corporation until their respective successors are duly elected or appointed and qualified. The officers of the surviving corporation shall consist of (i) Frank S. Sorrentino III as Chairman, President and Chief Executive Officer; (ii) William S. Burns, Chief Financial Officer; and (iii) Anthony Weagley, current President and Chief Executive Officer of Center Bancorp, as Chief Operating Officer.

ConnectOne Bancorp, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – PENDING MERGER

(continued)

Completion of the Merger is subject to various conditions, including, among others, (i) approval by shareholders of Center Bancorp and the Company of the Merger Agreement and the transactions contemplated thereby, (ii) the receipt of all necessary approvals and consents of governmental entities required to consummate the transactions contemplated by the Merger Agreement, (iii) the absence of any order or proceeding which prohibits the Merger or the Bank Merger and (iv) the receipt by each of Center Bancorp and ConnectOne Bancorp of an opinion to the effect that the Merger will be treated as a reorganization qualifying under Section 368(a) of the Internal Revenue Code of 1986, as amended. Each party's obligation to consummate the Merger is also subject to certain customary conditions, including (i) subject to certain exceptions, the accuracy of the representations and warranties of the other party, (ii) performance in all material respects of its agreements, covenants and obligations and (iii) the delivery of certain certificates and other documents.

The Company expects the Merger to be completed in either the second or third quarter of 2014.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Some of the statements in this document discuss future expectations, contain projections or results of operations or financial conditions or state other “forward-looking” information. Those statements are subject to known and unknown risk, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. We based the forward-looking statements on various factors and using numerous assumptions. Important factors that may cause actual results to differ from those contemplated by forward-looking statements include those disclosed under Item 1A – Risk Factors included in the Company’s Annual Report Form 10K filed for the year ended December 31, 2013 and the following:

the success or failure of our efforts to implement our business strategy;

the effect of changing economic conditions and, in particular, changes in interest rates;

changes in government regulations, tax rates and similar matters;