Bancorp, Inc.
Form 10-Q
May 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from: __________ to __________

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**23-3016517**
(State or other jurisdiction of incorporation or organization)	***(IRS Employer Identification No.)***

409 Silverside Road

Wilmington, DE 19809

(Address of principal executive offices)

(Zip code)

Registrant s telephone number, including area code: (302) 385-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

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

Yes ¨ No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer, large accelerated filer and in Rule 12b-2 of the Exchange Act.

(Check one):	Large accelerated filer ¨	Accelerated filer x
	Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As of May 05, 2009 there were 14,563,919 outstanding shares of Common Stock, $1.00 par value.

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PART I FINANCIAL INFORMATION

Item 1. Financial statements

THE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	March 31, 2009 (unaudited)	December 31, 2008
	(dollars in thousands)	
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 117,669	$ 90,744
Interest bearing deposits	2,046	1,033
Federal funds sold	18,114	87,729
Total cash and cash equivalents	137,829	179,506
Investment securities, available-for-sale, at fair value	86,045	82,929
Investment securities, held-to-maturity(fair value $19,239 and $18,408, respectively)	23,535	23,529
Loans, net of deferred loan costs	1,471,556	1,449,349
Allowance for loan and lease losses	(18,977)	(17,361)
Loans, net	1,452,579	1,431,988
Premises and equipment, net	8,496	8,279
Accrued interest receivable	6,872	7,799
Intangible assets, net	10,755	11,005
Other real estate owned	4,600	4,600
Deferred tax asset, net	22,794	22,847
Other assets	13,567	19,893
Total assets	$ 1,767,072	$ 1,792,375
LIABILITIES		
Deposits		
Demand (non-interest bearing)	$ 484,813	$ 340,013
Savings, money market and interest checking	860,584	804,502
Time deposits	116,046	357,831
Time deposits, $100,000 and over	20,480	23,016
Total deposits	1,481,923	1,525,362
Securities sold under agreements to repurchase	3,364	9,419
Short-term borrowings	86,000	61,000
Accrued interest payable	414	2,475
Subordinated debenture	13,401	13,401
Other liabilities	808	315
Total liabilities	1,585,910	1,611,972

SHAREHOLDERS EQUITY		
Preferred stock -authorized 5,000,000 shares, Series A, $0.01 par value, 108,136 shares issued and outstanding at March 31, 2009 and December 31, 2008;	1	1
Series B, $1,000 liquidation value, 45,220 shares issued and outstanding at March 31, 2009 and December 31, 2008	39,293	39,028
Common stock - authorized, 20,000,000 shares of $1.00 par value; 14,563,919 shares issued and outstanding at March 31, 2009 and December 31, 2008	14,563	14,563
Additional paid-in capital	145,183	145,156
Accumulated Deficit	(17,154)	(17,517)
Accumulated other comprehensive loss	(724)	(828)
Total shareholders equity	181,162	180,403
Total liabilities and shareholders equity	$ 1,767,072	$ 1,792,375

The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

	For the three months ended March 31, 2009	2008
	(dollar in thousands, except per share data)	
Interest income		
Loans, including fees	$ 18,244	$ 23,289
Investment securities	1,077	1,606
Interest bearing deposits	3	109
Federal funds sold	93	239
	19,417	25,243
Interest expense		
Deposits	4,214	11,110
Securities sold under agreements to repurchase	11	14
Short-term borrowings	49	974
Subordinated debt	227	249
	4,501	12,347
Net interest income	14,916	12,896
Provision for loan and lease losses	3,000	1,350
Net interest income after provision for loan and lease losses	11,916	11,546
Non-interest income		
Service fees on deposit accounts	277	149
Merchant credit card deposit fees	232	270
Stored value processing fees	2,359	2,531
Leasing income	61	216
ACH processing fees	126	58
Other	273	252
Total non-interest income	3,328	3,476
Non-interest expense		
Salaries and employee benefits	6,135	4,951
Occupancy expense	1,347	1,075
Data processing expense	1,728	976
Advertising	246	187
Professional fees	615	520
Amortization of intangibles	250	250
Other	2,932	2,403
Total non-interest expense	13,253	10,362
Net income before income tax	1,991	4,660
Income tax	781	1,833
Net income	1,210	2,827

Less preferred stock dividends and accretion	(847)	(17)
Income allocated to Series A preferred shareholders		(21)
Net income available to common shareholders	$ 363	$ 2,789
Net income per share - basic	$ 0.03	$ 0.19
Net income per share - diluted	$ 0.03	$ 0.19

The accompanying notes are an integral part of these statements.

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THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

For the three months ended March 31, 2009

(Dollars and share information in thousands)

	Common Stock	Preferred Stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Accumulated other comprehensive loss	Comprehensive income	Total
			(Dollars and share information in thousands)				
Balance at December 31, 2008	$ 14,563	$ 39,029	$ 145,156	$ (17,517)	$ (828)		$ 180,403
Net Income				1,210		$ 1,210	1,210
Cash dividends on preferred shares				(582)			(582)
Accretion of series B on preferred shares		265		(265)			
Stock-based compensation expense			27				27
Other comprehensive income, net of reclassification adjustments and tax					104	104	104
						$ 1,314	
Balance at March 31, 2009	$ 14,563	$ 39,294	$ 145,183	$ (17,154)	$ (724)		$ 181,162

The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

(dollars in thousands)

	For the three months ended March 31, 2009	2008
Operating activities		
Net income	$ 1,210	$ 2,827
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	966	804
Provision for loan and lease losses	3,000	1,350
Net amortization of investment securities discounts/premiums	4	(4)
Stock-based compensation expense	27	15
Mortgage loans originated for sale	(1,787)	(3,615)
Sale of mortgage loans originated for resale	1,381	3,605
Gain on sale of mortgage loans originated for resale	(5)	(10)
Decrease in accrued interest receivable	661	1,589
(Decrease) increase in interest payable	(2,061)	264
Decrease (increase) in other assets	6,353	(1,683)
Increase (decrease) in other liabilities	270	(979)
Net cash provided by operating activities	10,019	4,163
Investing activities		
Purchase of investment securities available for sale	(43,926)	(5,398)
Proceeds from redemptions and repayment available for sale	41,223	1,353
Net increase in loans	(23,176)	(76,087)
Net gain on sales of fixed assets		(1)
Purchases of premises and equipment	(911)	(843)
Net cash used in investing activities	(26,790)	(80,976)
Financing activities		
Net decrease in deposits	(43,439)	(23,548)
Net decrease in securities sold under agreements to repurchase	(6,055)	(1,188)
Proceeds from short-term borrowings	25,000	100,000
Dividends on Series A and B preferred stock	(412)	(17)
Net cash provided(used in) by financing activities	(24,906)	75,247
Net decrease in cash and cash equivalents	(41,677)	(1,566)
Cash and cash equivalents, beginning of year	179,506	82,158
Cash and cash equivalents, end of year	$ 137,829	$ 80,592
Supplemental disclosure:		
Interest paid	$ 6,562	$ 12,168
Taxes paid	$ 29	$ 1,620

The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARY

NOTES TO THE CONSOLDIATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Basis of Presentation

The financial statements of The Bancorp, Inc. (Company) as of March 31, 2009 and for the three month periods ended March 31, 2009 and 2008 are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The results of operations for the three month period ended March 31, 2009 may not necessarily be indicative of the results of operations for the full year ending December 31, 2009.

Note 2. Stock-based Compensation

The Company accounts for its stock options and stock appreciation rights under Statement of Financial Accounting Standards (SFAS) No.123(R), *Share-based Payment*, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. Under SFAS No. 123(R), all forms of share-based payments to employees, including employee stock options and phantom stock units, are treated the same as other forms of compensation by recognizing the related cost in income. The expense of the award generally is measured at fair value at the grant date. At March 31, 2009, the Company has two stock-based compensation plans, which are more fully described in its
Form 10-K report.

The fair value of each option, stock appreciation rights grant is estimated on the date of the grant using the Black-Scholes option-pricing model. The significant assumptions utilized in applying the Black-Scholes option pricing model are the risk-free interest rate, expected term, dividend yield, and expected volatility. The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term used in the assumption for the model. The expected term of an option or stock appreciation right is based on historical experience of similar awards. The dividend yield is determined by dividing per share and stock appreciation rights unit dividend by the grant date stock price. The expected volatility is based on the volatility of the Company s stock price over a historical period comparable to the expected term. The Company did not grant any stock options in 2009 and granted 60,000 shares of stock appreciation rights in 2008. The weighted-average assumptions used in the Black-Sholes valuation model for the stock options are shown below.

	For the three months ended March 31, 2009	For the three months ended March 31, 2008
Risk-free interest rate		2.65%
Expected term		5.5 Years
Dividend		0.00%
Expected volatility		42.79%

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As of March 31, 2009 there was $242,145 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a period of 1.33 years. There were no stock options exercised for the three month periods ending March 31, 2009 and 2008. Included in net income for the three months ended March 31, 2009 and 2008 was compensation expense of $27,043 and $15,000, respectively. The following tables are a summary of activity in the plans as of March 31, 2009 and changes during the period then ended:

Options:

	For the three months ended March 31, 2009			
	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of the year	1,503,737	$ 12.12		
Granted				
Exercised				
Forfeited				
Outstanding at end of period	1,503,737	$ 12.12	4.34	$
Options exercisable at end of period	1,493,737	$ 12.04	4.32	$

Stock appreciation rights:

	Shares	Weighted-Average Price	Average Remaining Contractual Term
Outstanding at beginning of the year	60,000	$ 11.41	
Granted			
Exercised			
Forfeited			
Outstanding at end of period	60,000	$ 11.41	3.0

Note 3. Earnings Per Share

Basic earnings per share for a particular period of time is calculated by dividing net income by the weighted average number of common shares outstanding during that period.

Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares and common share equivalents. The Company s only outstanding common share equivalents are stock appreciation rights and options to purchase its common stock.

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The following table shows the Company s earnings per share for the periods presented:

	For the three months ended March 31, 2009		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$ 363	14,563,919	$ 0.03
Effect of dilutive securities			
Stock options			
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 363	14,563,919	$ 0.03

Stock options for 3,464,142 shares and stock appreciation rights for 60,000 shares, exercisable at prices between $3.46 and $25.43 per share, were outstanding at March 31, 2009, but were not included in the dilutive shares because the exercise share price was greater than the market price.

	For the three months ended March 31, 2008		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share			
Net income available to common shareholders	$ 2,789	14,561,640	$ 0.19
Effect of dilutive securities			
Stock appreciation rights		17,790	
Phantom stock units			
Stock options		89,573	
Diluted earnings per share			
Net income available to common shareholders plus assumed conversions	$ 2,789	14,669,003	$ 0.19

Stock options for 499,375 shares, exercisable at prices between $14.24 and $25.43 per share, were outstanding at March 31, 2008 but were not included in the dilutive shares because the exercise share price was greater than the market price.

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Note 4. Investment securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company s investment securities at March 31, 2009 and December 31, 2008 are summarized as follows (in thousands):

	March 31, 2009			
Available for sale	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. Government agency securities	$ 26,986	$ 564	$	$ 27,550
State and Municipal securities	2,977	25		3,002
Mortgage-backed securities	47,858	798	(435)	48,221
Other securities	7,364		(92)	7,272
	$ 85,185	$ 1,387	$ (527)	$ 86,045

	March 31, 2009			
Held to maturity	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Other securities	$ 23,535	$	$ (4,296)	$ 19,239
	$ 23,535	$	$ (4,296)	$ 19,239

	December 31, 2008			
Available for sale	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. Government agency securities	$ 59,982	$ 894	$	$ 60,876
Mortgage-backed securities	15,102	380	(461)	15,021
Other securities	7,128		(96)	7,032
	$ 82,212	$ 1,274	$ (557)	$ 82,929

	December 31, 2008			
Held to maturity	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Other securities	$ 23,529	$	$ (5,121)	$ 18,408
	$ 23,529	$	$ (5,121)	$ 18,408

On a quarterly basis the Company reviews the investment portfolio for other than temporary impairment. A decline in a debt security s fair value is considered to be other-than-temporary if it is probable that not all amounts contractually due will be collected or management determines that it does not have the intent and ability to hold the security for a period of time sufficient for a forecasted market price recovery up to or beyond the amortized cost of the security. Based on management s evaluation no securities were considered to be impaired at March 31, 2009.

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The amortized cost and fair value of the Company s investment securities at March 31, 2009, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay debt securities with or without call or prepayment penalties.

	Available for sale		Held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	$ 19,986	$ 20,550	$	$
Due after one year through five years	2,232	2,174		
Due after five years through ten years				
Due after ten years	56,646	57,000	23,535	19,239
Federal Home Loan and Atlantic Central Bankers Bank stock	6,321	6,321		
	$ 85,185	$ 86,045	$ 23,535	$ 19,239

Note 5. Loans

Major classifications of loans are as follows (in thousands):

	March 31, 2009 amount	December 31, 2008 amount
Commercial	$ 348,765	$ 353,219
Commercial mortgage	506,337	488,986
Construction	309,411	305,889
Total commercial loans	1,164,513	1,148,094
Direct financing leases, net	83,326	85,092
Residential mortgage	60,282	57,636
Consumer loans and others	161,945	157,446
	1,470,066	1,448,268
Deferred loan costs	1,490	1,081
Total loans, net of deferred loan costs	$ 1,471,556	$ 1,449,349
Supplemental loan data:		
Construction 1-4 family	$ 159,148	$ 163,718
Construction commercial, acquisition and development	150,263	142,171
	$ 309,411	$ 305,889

The Company identifies a loan as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. The balance of impaired loans was $11.9 million on March 31, 2009. The specific valuation allowance allocated to these impaired loans was $4.0 million. The balance of impaired loans was $8.7 million at December 31, 2008. The specific valuation allowance allocated to these impaired loans was $3.1 million.

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The Company recognizes income on impaired loans on the cash basis when the loans are both current and the collateral on the loan is sufficient to cover the outstanding obligation to the Company. If these factors do not exist, the Company will not recognize income on such loans.

The following table summarizes our non-performing loans:

	March 31, 2009 Amount	December 31, 2008 (in thousands) Amount
Non-accrual loans	$ 11,949	$ 8,729
Loans past due 90 days or more	13,362	4,055
Total Non-Performing loans	$ 25,311	$ 12,784

Changes in the allowance for loan and lease losses are as follows (in thousands):

	Three months ended March 31,		For the year ended December 31,
	2008	2008	2008
Balances at the beginning of the year	$ 17,361	$ 10,233	$ 10,233
Charge-offs	(1,386)	(260)	(5,533)
Recoveries	2	5	161
Provision charged to operations	3,000	1,350	12,500
Balance at end of year	$ 18,977	$ 11,328	$ 17,361

Note 6. Transactions with affiliates

The Company subleases office space in Philadelphia, Pennsylvania to RAIT Financial Trust (RAIT). The Chairman of RAIT is the Chairman and Chief Executive Officer of the Company s wholly-owned banking subsidiary, The Bancorp Bank (Bank), and Chief Executive Officer of the Company. Under the sublease, RAIT pays the Company rent equal to 44% of the rent paid by the Company and an allocation of common area expenses. RAIT was charged $83,000 and $94,600 for the three-month periods ended March 31, 2009 and 2008, respectively.

The Company maintains deposits for various affiliated companies totaling approximately $18.1 million and $24.9 million as of March 31, 2009 and December 31, 2008, respectively. The majority of these deposits are short-term in nature and rates are consistent with market rates.

The Company has entered into lending transactions in the ordinary course of business with directors, officers, principal stockholders, and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. At March 31, 2009, these loans were current as to principal and interest payments and, in the opinion of management, do not involve more than normal risk of collectability. At March 31, 2009, loans to these related parties amounted to $11.5 million.

The Bank participated in one loan at March 31, 2008 that was originated by RAIT. The outstanding loan amounted to $21.2 million. The Bank has a senior position on the loan.

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Note 7. Fair Value Measurements

SFAS No. 157, *Fair Value Measurements*, (a) establishes a common definition for fair value to be applied to assets and liabilities, where required or permitted by accounting standards; (b) establishes a framework for measuring fair value; and (c) expands disclosures concerning fair value measurements. SFAS No. 157 does not extend the required use of fair value to any new circumstances. Fair value measurements are established according to a three level hierarchy, using the highest level possible (Level 1) if such inputs are available. Level 1 valuation is based on quoted market prices for identical assets or liabilities to which the Company has access at the measurement date. Level 2 valuation is based on other observable inputs for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset or liability such as yield curves, volatilities, prepayment speeds, credit risks, default rates, or inputs that are derived principally from or corroborated through observable market data by market-corroborated reports. Level 3 valuation is based on unobservable inputs that are the best information available in the circumstances. Assets measured at fair value on a recurring basis, segregated by fair value hierarchy level, are summarized below:

		Fair Value Measurements at Reporting Date Using		
Description	March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)