

Bancorp, Inc.
Form 10-Q
May 07, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2010

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
(State or other jurisdiction of
incorporation or organization)

23-3016517
(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 ☒ 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, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer ☐

Accelerated filer ☒

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 ☒

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 5, 2010 there were 26,181,291 outstanding shares of Common Stock, \$1.00 par value.

THE BANCORP, INC

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$106,316	\$135,246
Interest bearing deposits	232,117	219,213
Total cash and cash equivalents	338,433	354,459
Investment securities, available-for-sale, at fair value	156,191	93,478
Investment securities, held-to-maturity (fair value \$15,437 and \$15,415, respectively)	21,488	21,468
Loans, net of deferred loan costs	1,527,691	1,523,722
Allowance for loan and lease losses	(20,357)	(19,123)
Loans, net	1,507,334	1,504,599
Premises and equipment, net	8,140	7,942
Accrued interest receivable	7,589	7,722
Intangible assets, net	9,755	10,005
Other real estate owned	648	459
Deferred tax asset, net	20,872	20,875
Other assets	22,063	22,527
Total assets	\$2,092,513	\$2,043,534
LIABILITIES		
Deposits		
Demand (non-interest bearing)	\$973,116	\$506,641
Savings, money market and interest checking	875,511	1,005,048
Time deposits	1,317	125,255
Time deposits, \$100,000 and over	12,339	17,565
Total deposits	1,862,283	1,654,509
Securities sold under agreements to repurchase	8,245	2,588
Short-term borrowings	-	100,000
Accrued interest payable	136	362
Subordinated debenture	13,401	13,401
Other liabilities	6,401	27,471
Total liabilities	1,890,466	1,798,331
SHAREHOLDERS' EQUITY		
Preferred stock - Series B, \$1,000 liquidation value, 0 and 45,220 shares issued and	-	39,411

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outstanding at March 31, 2010 and December 31, 2009, respectively

Common stock - authorized, 50,000,000 shares of \$1.00 par value; 26,181,291

shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively

Additional paid-in capital

Accumulated deficit

Accumulated other comprehensive income (loss)

Total shareholders' equity

26,181	26,181
196,898	196,875
(21,231)	(17,175)
199	(89)
202,047	245,203

Total liabilities and shareholders' equity

\$2,092,513	\$2,043,534
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The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARY
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

	For the three months ended March 31,	
	2010	2009
	(in thousands, except per share data)	
Interest income		
Loans, including fees	\$17,972	\$18,244
Interest on investment securities:		
Taxable interest	1,308	1,077
Tax-exempt interest	390	-
Federal funds sold	-	93
Interest bearing deposits	351	3
	20,021	19,417
Interest expense		
Deposits	3,514	4,214
Securities sold under agreements to repurchase	7	11
Short-term borrowings	5	49
Subordinated debt	215	227
	3,741	4,501
Net interest income	16,280	14,916
Provision for loan and lease losses	4,148	3,000
Net interest income after provision for loan and lease losses	12,132	11,916
Non-interest income		
Service fees on deposit accounts	381	277
Merchant credit card deposit fees	486	358
Stored value income	2,815	2,359
Gain on sales of investment securities	750	-
Leasing income	664	61
Debit card income	170	118
Other	228	83
Total non-interest income	5,494	3,256
Non-interest expense		
Salaries and employee benefits	6,372	6,194
Depreciation and amortization	647	694
Rent and related occupancy cost	623	653
Data processing expense	1,613	1,577
Printing and supplies	414	289
Audit expense	291	300
Legal expense	354	233
Amortization of intangible assets	250	250

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FDIC Insurance	756	294
Software, maintenance and equipment	333	187
Other	2,554	2,510
Total non-interest expense	14,207	13,181
Net income before income tax	3,419	1,991
Income tax provision	1,233	781
Net income	2,186	1,210
Less preferred stock dividends and accretion	(6,242)	) (847)
Net income (loss) available to common shareholders	\$ (4,056)	) \$ 363
Net income (loss) per share - basic	\$ (0.15)	) \$ 0.03
Net income (loss) per share - diluted	\$ (0.15)) \$ 0.03

The accompanying notes are an integral part of these statements.

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THE BANCORP INC. AND SUBSIDIARY
 UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 For the three months ended March 31, 2010
 (in thousands except share data)

	Common stock shares	Common stock	Preferred stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive gain/(loss)	Comprehensive income	Total
Balance at December 31, 2009	26,181,291	\$26,181	\$39,411	\$ 196,875	\$ (17,175)	\$ (89)	-	\$245,203
Net income					2,186		\$ 2,186	2,186
Series B Preferred stock repayment to US Treasury			(45,220)					(45,220)
Cash dividends on preferred stock					(433)			(433)
Accretion of series B preferred shares			5,809		(5,809)			-
Stock-based compensation				23				23
Other comprehensive income, net of reclassification adjustments and tax	-	-	-	-	-	288	288	288
							\$ 2,474	
Balance at March 31, 2010	26,181,291	\$26,181	\$-	\$ 196,898	\$ (21,231)	\$ 199		\$202,047

The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARY
 UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
 (dollars in thousands)

	For the three months ended March 31,	
	2010	2009
Operating activities		
Net income	\$2,186	\$1,210
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	972	966
Provision for loan and lease losses	4,148	3,000
Net amortization of investment securities discounts/premiums	12	4
Stock-based compensation expense	23	27
Mortgage loans originated for sale	-	(1,787)
Sale of mortgage loans originated for resale	-	1,381
Gain on sale of mortgage loans originated for resale	-	(5)
Deferred income tax expense (benefit)	(3)	(53)
(Gain) loss on sales of fixed assets	16	-
Decrease in accrued interest receivable	133	661
Decrease in interest payable	(226)	(2,061)
Decrease in other assets	57	6,406
Increase (decrease) in other liabilities	(21,070)	270
Net cash (used in) provided by operating activities	(13,752)	10,019
Investing activities		
Purchase of investment securities available-for-sale	(99,493)	(43,926)
Proceeds from redemptions and repayment on securities available-for-sale	26,747	41,223
Proceeds from sales of investment securities available-for-sale	10,438	-
Net increase in loans	(6,883)	(23,176)
Purchases of premises and equipment	(861)	(911)
Net cash used in investing activities	(70,052)	(26,790)
Financing activities		
Net increase (decrease) in deposits	207,774	(43,439)
Net increase (decrease) in securities sold under agreements to repurchase	5,657	(6,055)
(Repayment) proceeds from short-term borrowings	(100,000)	25,000
Repayment of preferred stock	(45,220)	-
Dividends paid on Series A and B preferred stock	(433)	(412)
Net cash provided by financing activities	67,778	(24,906)
Net decrease in cash and cash equivalents	(16,026)	(41,677)
Cash and cash equivalents, beginning of year	354,459	179,506
Cash and cash equivalents, end of year	\$338,433	\$137,829

Supplemental disclosure:

Interest paid	\$3,967	\$6,562
Taxes paid	\$26	\$29
Transfers of loans to other real estate owned	\$189	\$-

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THE BANCORP, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Formation and Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and is a registered bank holding company with a wholly owned subsidiary bank, The Bancorp Bank (the Bank). The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. Through the Bank, the Company provides retail and commercial banking services in the Philadelphia, Pennsylvania and Wilmington, Delaware areas and related other banking services nationally, which includes private label banking, health savings accounts and prepaid debit cards. The principal medium for the delivery of the Company's banking services is the Internet.

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of March 31, 2010 and for the three month periods ended March 31, 2010 and 2009 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, 2009. The results of operations for the three month period ended March 31, 2010 may not necessarily be indicative of the results of operations for the full year ending December 31, 2010.

Note 3. Share-based Compensation

The Company accounts for its share-based compensation according to the FASB Accounting Standards Codification (ASC) topic 718, Compensation—Stock Compensation, 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 ASC topic 718, 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. The impact of the ASC topic 718 is reflected in net earnings and related per share amounts for the quarters ended March 31, 2010 and 2009. At March 31, 2010, the Company had two stock-based compensation plans, which are more fully described in its Form 10-K report.

The fair value of each grant of stock option and stock appreciation right is estimated on the date of the grant using the Black-Scholes option pricing model. The significant assumptions utilized in applying the Black-Scholes options-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 dividends by the grant date stock price. The expected volatility is based on

the volatility of the Company's stock price over a historical period as comparable, as possible to the expected term. The Company did not grant any share-based compensation in first quarter 2010 or 2009.

As of March 31, 2010, there was \$141,657 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 2 years. There were no stock options exercised for the three month periods ending March 31, 2010 and 2009. Related compensation expense for the three months ended March 31, 2010 and 2009 was \$23,030 and \$27,043 respectively. The following tables are a summary of activity in the plans as of March 31, 2010 and changes during the period then ended:

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For the three months ended March 31, 2010

Stock options:

	Shares	Weighted average exercise price (dollars in thousands except per share data)	Weighted- average remaining contractual term (Years)	Aggregate intrinsic value
Outstanding at January 1, 2010	1,322,864	\$ 12.34		
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled/forfeited	-	-	-	-
Outstanding at March 31, 2010	1,322,864	12.34	3.73	\$-
Exercisable at March 31, 2010	1,322,864		3.73	\$-

Stock appreciation rights:

	Shares	Weighted- average price	Average remaining contractual term (Years)
Outstanding at beginning of the year	60,000	\$ 11.41	
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at end of period	60,000	\$ 11.41	2.0

Note 4. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by dividing net income available to common shareholders 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 (loss) per share for the periods presented:

	For the three months ended March 31, 2010		
	Income (numerator) (dollars in thousands except per share data)	Shares (denominator)	Per share amount
Basic loss per share			
Net income available to common shareholders	\$(4,056)	26,181,291	\$(0.15)
Effect of dilutive securities			
Stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$(4,056)	26,181,291	\$(0.15)

Stock options for 1,322,864 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, 2010 but were not included in the diluted loss per share computation because the Company had a net loss available to common shareholders for the period.

	For the three months ended March 31, 2009		
	Income (numerator) (dollars in thousands except per share data)	Shares (denominator)	Per share amount
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	\$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 diluted earnings per share computation because the exercise share price was greater than the average market price.

Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's investment securities at March 31, 2010 and December 31, 2009 are summarized as follows (in thousands):

Available-for-sale	March 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	\$78,618	\$351	\$(101)	\$78,868
Tax-exempt obligations of states and political subdivisions	26,147	1,083	(31)	27,199
Taxable obligations of states and political subdivisions	1,925	1	(5)	1,921

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Mortgage-backed securities	14,904	167	(43)	15,028
Other debt securities	25,987	968	(345)	26,610
Federal Home Loan and Atlantic Central					
Bankers Bank stock	6,565	-	-		6,565
	\$ 154,146	\$ 2,570	\$(525)	\$ 156,191

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Held-to-maturity	March 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities	\$21,488	\$-	\$(6,051)	) \$15,437
	\$21,488	\$-	\$(6,051)	) \$15,437

Available-for-sale	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	\$27,000	\$-	\$(241)	) \$26,759
Tax-exempt obligations of states and political subdivisions	29,344	1,809	-	31,153
Mortgage-backed securities	7,929	119	-	8,048
Other debt securities	21,005	326	(378)	) 20,953
Federal Home Loan and Atlantic Central Bankers Bank stock	6,565	-	-	6,565
	\$91,843	\$2,254	\$(619)	) \$93,478

Held-to-maturity	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities	\$21,468	\$-	\$(6,053)	) \$15,415
	\$21,468	\$-	\$(6,053)	) \$15,415

Available-for-sale securities fair values are based on the fair market value supplied by the third-party market data provider while held-to-maturity securities are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date.

The other debt securities included in the held-to-maturity classification on our balance sheet at March 31, 2010 consisted of five single issuer trust preferred securities issued by either banks or insurance companies and two pooled issuer trust preferred securities, whose collateral is made up of trust preferred securities issued by banks. The amortized cost of the single issuer trust preferred securities was \$19.5 million, of which three securities totaling \$7.5 million were issued by three different banks and two securities totaling \$12.0 million were issued by two different insurance companies. The two pooled trust preferred securities totaled \$2.0 million.

The Company periodically reviews its investment portfolio for other-than-temporary impairment. An investment is impaired if the fair value of the investment is less than its amortized cost basis. An impairment in a debt security is considered to be other-than-temporary (a) if a credit loss exists, which occurs when the present value of the cash flows expected to be collected is less than the amortized cost basis for the security or (b) if either of the following conditions is met: an entity that holds a security has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The Company believes that the decrease in values of the held-to-maturity securities is driven by interest rate and current economic conditions; however, the Company believes that the declines are temporary. The Company has the ability to continue to hold the securities to their maturity.

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The amortized cost and fair value of the Company's investment securities at March 31, 2010, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due after one year through five years	\$22,987	\$23,434	\$-	\$-
Due after five years through ten years	50,127	50,250	3,322	2,822
Due after ten years	74,467	75,942	18,166	12,615
Federal Home Loan and Atlantic Central Bankers Bank stock	6,565	6,565	-	-
	\$154,146	\$156,191	\$21,488	\$15,437

At March 31, 2010 and December 31, 2009, investment securities with a book value of approximately \$10.3 million and \$6.7 million, respectively, were pledged as sold under repurchase agreements and Federal Home Loan Bank advances as required or permitted by law. Gross gains on sales of securities in the first three months of 2010 amounted to \$750,000. There were no gains or losses on securities in the first three months of 2009.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at March 31, 2010 (dollars in thousands):

March 31, 2010		Less than 12 months		12 months or longer		Total	
Available-for-sale	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Description of Securities							
U.S. Government agency securities	1	\$11,899	\$(101)	\$-	\$-	\$11,899	\$(101)
Tax-exempt obligations of states and political subdivisions	3	\$4,207	\$(31)	\$-	\$-	\$4,207	\$(31)
Taxable obligations of states and political subdivisions	1	\$1,420	\$(5)	\$-	\$-	\$1,420	\$(5)
Mortgage-backed securities	3	\$7,385	\$(43)			\$7,385	\$(43)
Other securities	1	\$-	\$-	\$648	\$(345)	\$648	\$(345)
Total temporarily impaired investment securities	9	\$24,911	\$(180)	\$648	\$(345)	\$25,559	\$(525)

March 31, 2010		Less than 12 months		12 months or longer		Total	
Held-to-maturity		Unrealized		Unrealized		Unrealized	
Description of Securities	Number of securities	Fair Value	losses	Fair Value	losses	Fair Value	losses
Other securities	7	\$-	\$-	\$15,437	\$(6,051)	\$15,437	\$(6,051)
Total temporarily impaired investment securities	7	\$-	\$-	\$15,437	\$(6,051)	\$15,437	\$(6,051)

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December 31, 2009							
Description of Securities	Number of securities	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Government agency securities	1	\$26,759	\$(241)	\$-	\$-	\$26,759	\$(241)
Other securities	3	9,970	(29)	658	(349)	10,628	(378)
Total temporarily impaired investment securities	4	\$36,729	\$(270)	\$658	\$(349)	\$37,387	\$(619)
December 31, 2009							
Description of Securities	Number of securities	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
Other securities	7	\$-	\$-	\$15,415	\$(6,053)	\$15,415	\$(6,053)
Total temporarily impaired investment securities	7	\$-	\$-	\$15,415	\$(6,053)	\$15,415	\$(6,053)

Management has evaluated the securities in the above tables and has concluded that none of these securities have impairment that is other-than-temporary. Management evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. Management's best estimate of expected future cash flows which is used to determine the credit loss amount is a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security. The Company concluded that most of the securities that are in an unrealized loss position are in a loss position because of changes in interest rates since the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to interest rates and changes in credit quality. The Company's unrealized loss for the debt securities is primarily related to general market conditions and the resultant lack of liquidity in the market. The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis for each investment, performed at the security level, shows that the credit quality of the individual bonds ranges from good to deteriorating. As a result of its review, the Company concluded that other-than-temporary impairment did not exist due to the Company's ability and intention to hold these securities to recover their amortized cost basis.

Note 6. Loans

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

	March 31, 2010	December 31, 2009
Commercial	\$413,361	\$402,232
Commercial mortgage *	557,713	569,434
Construction	206,275	207,184
Total commercial loans	1,177,349	1,178,850
Direct financing leases, net	81,904	78,802
Residential mortgage	89,005	85,759
Consumer loans and others	177,456	178,608
	1,525,714	1,522,019
Deferred loan costs	1,977	1,703
Total loans, net of deferred loan costs	\$1,527,691	\$1,523,722
Supplemental loan data :		
Construction 1-4 family	\$98,151	\$100,088
Construction commercial, acquisition and development	108,124	107,096
	\$206,275	\$207,184

*At March 31, 2010, our owner occupied loans amounted to \$105 million, or 18.9% of commercial mortgages.

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The Company identifies a loan as impaired where 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 \$17.9 million at March 31, 2010, of which \$13.6 million had a specific valuation allowance of \$4.7 million, and \$4.3 million of which did not have a valuation allowance. The balance of impaired loans was \$18.7 million at December 31, 2009, of which \$11.7 million had a specific valuation allowance of \$3.2 million, and \$7.0 million of which did not have a valuation allowance.

The Company recognizes income on impaired loans after they are placed into non-accrual status on a cash basis only 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 Company did not recognize income on impaired loans in first quarter 2010.

The following table summarizes the Company's non-accrual loans and loans 90 days past due still accruing (in thousands):

	March 31, 2010	December 31, 2009
Non-accrual loans	\$17,863	\$12,270
Loans past due 90 days or more still accruing	4,071	12,994

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

	Three months ended		For the year ended December 31, 2009
	March 31, 2010	2009	
Balances at the beginning of the year	\$19,123	\$17,361	\$17,361
Charge-offs	(2,995)	(1,386)	(11,364)
Recoveries	81	2	126
Provision charged to operations	4,148	3,000	13,000
Balances at the end of the year	\$20,357	\$18,977	\$19,123

Note 7. 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 Bank and the Chief Executive Officer of the Company. RAIT was charged rent and other expenses of \$72,000 and \$83,000 for the three-month periods ended March 31, 2010 and 2009, respectively.

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The Bank maintains deposits for various affiliated companies totaling approximately \$11.8 million and \$10.4 million as of March 31, 2010 and December 31, 2009, respectively. The majority of these deposits are short-term in nature and rates are consistent with market rates.

The Bank has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. At March 31, 2010, these loans were current as to principal and interest payments and did not involve more than normal risk of collectability. At March 31, 2010, loans to these related parties amounted to \$7.4 million. During the period ended March 31, 2010, the Bank made new loans to related parties of \$76,000 and received repayments of \$74,000.

The Bank participated in one loan at March 31, 2010 that was originated by RAIT. The outstanding principal balance of the loan was \$21.6 million at March 31, 2010. The Bank has a senior position on the loan.

The Company paid rent to the prior owner of Mears Motor Livery, currently a vice president of the Bank, for space in Florida of \$19,000 and \$21,000 for the three-month periods ended March 31, 2010 and 2009, respectively.

Note 8. Fair Value Measurements

The FASB ASC 825, Financial Instruments, requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. However, many of such instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity whether or not categorized as "available-for-sale" and not to engage in trading or sales activities, except for certain loans. For fair value disclosure purposes, the Company utilized certain fair value measurement criteria as required under the FASB ASC 820, Fair Value Measurements and Disclosures, and explained below.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

For cash and cash equivalents, including cash and due from banks, the Federal Reserve and federal funds sold, the recorded book values of \$338.4 million and \$354.4 million as of March 31, 2010 and December 31, 2009, respectively, approximate fair values. The estimated fair values of investment securities are based on quoted market prices, if available, or by an estimated methodology based on management's inputs. The fair value of the Company's investment securities held-to-maturity are based on using "unobservable inputs" that are the best information available in the circumstances.

The net loan portfolio at March 31, 2010 and December 31, 2009 has been valued using the present value of discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value.

The estimated fair values of demand, savings, money market and interest checking deposits are, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The fair values of securities sold under

agreements to repurchase and short term borrowings are equal to their carrying amounts as they are overnight borrowings.

The fair values of certificates of deposit and subordinated debentures are estimated using a discounted cash flow calculation that applies current interest rates to discounted expected cash flows. Based upon time deposit maturities at March 31, 2010, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value.

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	March 31, 2010		December 31, 2009	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in thousands)			
Cash and cash equivalents	\$338,433	\$338,433	\$354,459	\$354,459
Investment securities available-for-sale	156,191	156,191	93,478	93,478
Investment securities held-to-maturity	21,488	15,437	21,468	15,415
Loans receivable, net	1,527,691	1,501,371	1,523,722	1,499,199
Demand deposits (non-interest bearing)	973,116	973,116	506,641	506,641
Savings, money market and interest checking	875,511	875,511	1,005,048	1,005,048
Certificates of deposit	13,656	13,939	142,820	142,818
Subordinated debentures and notes	13,401	9,150	13,401	9,152
Securities sold under agreements to repurchase	8,245	8,245	2,588	2,588
Short-term borrowings	-	-	100,000	100,000

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments including commitments to extend credit and the fair value of letters of credit are considered immaterial.

In addition, FASB ASC 820, Fair Value Measurements and Disclosures, establishes a common definition for fair value to be applied to assets and liabilities. It clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a framework for measuring fair value and expands disclosures concerning fair value measurements. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). 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. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assets measured at fair value on a recurring basis, segregated by fair value hierarchy level, are summarized below (in thousands):

Description	Balance March 31, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

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Investment

U.S. Government agency securities	\$78,868	\$-	\$78,868	\$ -
Obligations of states and political subdivisions	29,120	-	29,120	-
Mortgage-backed securities	15,028	-	15,028	-
Other debt securities	26,610	-	25,962	648
Federal Home Loan and Atlantic Central Bankers Bank stock	6,565	-	-	6,565
	\$156,191	\$-	\$148,978	\$ 7,213

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The Company's Level 3 assets are listed below (in thousands).

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Available-for-sale securities
Beginning Balance		\$ 7,222
Included in other comprehensive income		4
Purchases, issuances, and settlements		(13)
Transfers in		-
Ending Balance		\$ 7,213

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.

\$ -

Assets measured at fair value on a nonrecurring basis, segregated by fair value hierarchy, during the period ended March 31, 2010 are summarized below (in thousands):

Description	March 31, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$17,863	\$-	\$-	\$ 17,863
Other real estate owned	648	-	648	-
	\$18,511	\$-	\$648	\$ 17,863

Impaired loans that are collateral dependent have been presented at their fair value, less costs to sell, of \$17.9 million through the establishment of specific reserves of \$4.7 million or by recording charge-offs when the carrying value exceeds the fair value. Valuation techniques consistent with the market approach and/or cost approach were used to measure fair value and primarily included observable inputs for the individual impaired loans being evaluated such as recent sales of similar assets or observable market data for operational or carrying costs. In cases where such inputs were unobservable, the loan balance is reflected within the Level 3 hierarchy. The fair value of other real estate owned is based on an appraisal of the property using the market approach for valuation.

Note 9. Preferred Stock

On March 10, 2010, the Company repaid 100% of the Series B preferred stock issued under the U.S. Treasury Capital Purchase Program (CPP) totaling \$45.2 million. The Company recorded a non-cash charge of \$5.8 million for the unaccreted discount related to these preferred shares.

On December 12, 2008, the Company issued a warrant to purchase 1,960,405 shares of the Company's common stock (par value \$1.00 per share) to the Treasury Department. The warrant was issued in connection with the Treasury's investment in the Company's preferred stock, which has been repaid. The warrants have a 10-year term and are immediately exercisable at an exercise price, subject to antidilution adjustments, of \$3.46 per share. Pursuant to standard terms of the Securities Purchase Agreement with the Treasury Department for the CPP, as a result of raising "qualifying capital" of at least \$45.2 million prior to December 31, 2009, the number of share issuable under the warrant delivered to the Treasury Department as part of CPP were reduced by 50%. As a result, the number of shares exercisable under the warrant was reduced from 1,960,405 shares to 980,203 shares.

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Note 10. Subsequent Events

The Company evaluated its March 31, 2010 financial statements for subsequent events through the date the financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements except as follows:

On April 7, 2010, the Bank, as lender, entered into a Loan and Security Agreement with Resource Capital Corp., as borrower, Resource TRS, Inc., a wholly-owned subsidiary of Resource Capital Corp., as guarantor, and LEAF Financial Corporation as collateral servicer. The loan, in the principal amount of \$6.5 million with a fixed rate of 6.0% and a loan fee of 1.0%, matures in 30 months, is secured by small business equipment leases, and was made in the ordinary course of the Company's business on the same terms as those prevailing for comparable transactions with other borrowers. The President of Resource Capital Corp. is the brother of the Chairman of the Board and son of the Chief Executive Officer of the Company. One director of Resource Capital Corp. is the father of the Chairman of the Board and the spouse of the Chief Executive Officer of the Company. One director of the Company also serves as a director of Resource Capital Corp., and an additional director of the Company serves as a director of the parent company of Resource Capital Corp., Resource America, Inc. LEAF Financial Corporation is a subsidiary of Resource America. All of the directors with related interests in the loan did not vote or participate in any way in the loan approval.

Note 11. Reclassification

Certain reclassifications have been made to the 2009 financial statements to confirm to the 2010 presentation.

Note 12. Recent Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 810. FASB ASC 810 was issued to improve financial reporting by enterprises involved with variable interest entities, specifically to address: (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," as a result of the elimination of the qualifying special-purpose entity concept in FASB ASC 860 and (2) constituent concerns about the application of certain key provisions of FASB ASC 860, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. FASB ASC 810 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. The adoption of this Statement did not have a material effect on the Company's financial statements at the date of adoption, January 1, 2010.

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Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Forward-Looking Statements

When used in this Form 10-Q, the words "believes" "anticipates" "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties more particularly described in Item 1A, under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009. These risks and uncertainties could cause actual results to differ materially. We caution readers not place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this report except as required by applicable law.

In the following discussion we provide information about our results of operations, financial condition, liquidity and asset quality. We intend that this information facilitate your understanding and assessment of significant changes and trends related to our financial condition and results of operations. You should read this section in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Overview

We are a Delaware bank holding company with a wholly owned subsidiary, The Bancorp Bank, which we refer to as the Bank. Through the Bank, we provide a wide range of commercial and retail banking services and related other banking services, which include private label banking, health savings accounts and prepaid debit cards, to both regional and national markets.

Regionally, we focus on providing our banking services directly to retail and commercial customers in the Philadelphia-Wilmington metropolitan area, consisting of the 12 counties surrounding Philadelphia, Pennsylvania and Wilmington, Delaware including Philadelphia, Delaware, Chester, Montgomery, Bucks and Lehigh Counties in Pennsylvania, New Castle County in Delaware and Mercer, Burlington, Camden, Ocean and Cape May Counties in New Jersey. We believe that changes over the past ten years in this market have created an underserved base of small and middle-market businesses and high net worth individuals that are interested in banking with a company headquartered in and with decision-making authority based in, the Philadelphia-Wilmington area. We believe that our presence in the area provides us with insights as to the local market and, as a result, with the ability to tailor our products and services, and particularly the structure of our loans, more closely to the needs of our targeted customers. We seek to develop overall banking relationships with our targeted customers so that our lending operations serve as a generator of deposits and our deposit relationships serve as a source of loan assets. We believe that our regional presence also allows us to oversee and further develop our existing customer relationships.

Nationally, we focus on providing our services to organizations with a pre-existing customer base who can use one or more selected banking services tailored to support or complement the services provided by these organizations to their customers. These services include private label banking; credit and debit card processing for merchants affiliated with independent service organizations; healthcare savings accounts for healthcare providers and third-party plan administrators; and prepaid debit cards, also known as stored value cards, for insurers, incentive plans, large retail chains and consumer service organizations. We typically provide these services under the name and through the facilities of each organization with whom we develop a relationship. We refer to this, generally, as affinity group banking. Our private label banking, card processing, health savings account and stored value card programs are a source of fee income and low-cost deposits.

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Critical Accounting Policies and Estimates

Our accounting and reporting policies conform with accounting principles generally accepted in the United States of America, or GAAP, and general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

We believe that the determination of our allowance for loan and lease losses involves a higher degree of judgment and complexity than our other significant accounting policies. We determine our allowance for loan and lease losses with the objective of maintaining a reserve level we believe to be sufficient to absorb our estimated probable credit losses. We base our determination of the adequacy of the allowance on periodic evaluations of our loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, the amount of loss we may incur on a defaulted loan, expected commitment usage, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and historical loss experience. We also evaluate economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from our estimate, we may need additional provisions for loan losses that would reduce our earnings.

We periodically review our investment portfolio to determine whether unrealized losses are temporary, based on an evaluation of the creditworthiness of the issuers/guarantors as well as the underlying collateral, if applicable, in addition to the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment, or OTTI, condition.

We account for income taxes under the liability method whereby we determine deferred tax assets and liabilities based on the difference between the carrying val