

Bancorp, Inc.  
Form 10-Q  
November 10, 2014  
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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: September 30, 2014

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.

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(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

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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   
(Do not check if a 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 November 5, 2014 there were 37,708,862 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 SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (in thousands)	December 31, 2013
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 9,913	\$ 31,890
Interest earning deposits at Federal Reserve Bank	430,117	1,196,515
Securities purchased under agreements to resell	55,450	7,544
Total cash and cash equivalents	495,480	1,235,949
Investment securities, available-for-sale, at fair value	1,442,049	1,253,117
Investment securities, held-to-maturity (fair value \$94,889 and \$95,030, respectively)	96,951	97,205
Commercial loans held for sale	136,115	69,904
Loans, net of deferred loan fees and costs	866,765	655,320
Allowance for loan and lease losses	(4,390)	(2,164)
Loans, net	862,375	653,156
Federal Home Loan and Atlantic Central Bankers Bank stock	3,409	3,209
Premises and equipment, net	17,536	15,659
Accrued interest receivable	11,272	8,747
Intangible assets, net	6,573	7,612
Other real estate owned	725	-
Deferred tax asset, net	41,601	30,415
Assets held for sale	1,143,380	1,299,914
Other assets	39,046	31,178
Total assets	\$ 4,296,512	\$ 4,706,065
<b>LIABILITIES</b>		
Deposits		
Demand and interest checking	\$ 3,412,593	\$ 3,585,241
Savings and money market	241,518	434,834

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Time deposits	24	142
Time deposits, \$100,000 and over	-	100
Total deposits	3,654,135	4,020,317
Securities sold under agreements to repurchase	21,496	21,221
Subordinated debenture	13,401	13,401
Liabilities held for sale	227,898	253,203
Other liabilities	23,192	38,319
Total liabilities	3,940,122	4,346,461
<b>SHAREHOLDERS' EQUITY</b>		
Common stock - authorized, 50,000,000 shares of \$1.00 par value; 37,808,777 and 37,720,945 shares issued at September 30, 2014 and December 31, 2013, respectively	37,809	37,721
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	297,122	294,576
Retained earnings	10,957	27,615
Accumulated other comprehensive income	11,368	558
Total shareholders' equity	356,390	359,604
Total liabilities and shareholders' equity	\$ 4,296,512	\$ 4,706,065

The accompanying notes are an integral part of these consolidated statements.

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## THE BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Interest income				
Loans, including				
fees	\$ 9,175	\$ 7,227	\$ 26,439	\$ 20,460
Interest on				
investment				
securities:				
Taxable interest	5,311	4,057	15,804	11,345
Tax-exempt				
interest	3,157	1,326	8,197	2,924
Federal funds				
sold/securities				
purchased under				
agreements to				
resell	105	157	296	279
Interest bearing				
deposits	285	438	1,460	1,781
	18,033	13,205	52,196	36,789
Interest expense				
Deposits	2,523	2,401	7,697	6,947
Securities sold				
under agreements				
to repurchase	14	13	37	39
Subordinated				
debenture	116	115	344	433
	2,653	2,529	8,078	7,419
Net interest				
income	15,380	10,676	44,118	29,370
Provision for loan				
and lease losses	965	379	3,420	461
	14,415	10,297	40,698	28,909



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Net interest  
income after  
provision for loan  
and lease losses

Non-interest  
income

Service fees on deposit accounts	1,640	1,238	4,146	3,296
Card payment and ACH processing fees	1,369	1,027	3,989	2,940
Prepaid card fees	12,307	10,177	38,673	33,682
Gain on sale of loans	2,772	4,739	13,468	12,665
Gain on sale of investment securities	(35)	42	365	785
Other than temporary impairment on securities held-to-maturity	-	-	-	(20)
Leasing income	840	624	2,236	1,853
Debit card income	414	158	1,296	555
Affinity fees	649	722	1,851	2,428
Other	299	449	1,217	1,936
Total non-interest income	20,255	19,176	67,241	60,120

Non-interest  
expense

Salaries and employee benefits	13,935	13,321	44,824	38,927
Depreciation and amortization	1,178	934	3,361	2,665
Rent and related occupancy cost	1,274	986	3,423	2,826
Data processing expense	3,315	2,710	10,033	7,956
Printing and supplies	492	352	1,637	1,191
Audit expense	356	347	1,132	963
Legal expense	557	642	1,489	932
Amortization of intangible assets	304	250	912	750
FDIC insurance	1,492	895	4,297	2,729
Software	1,158	933	3,449	2,672
Bank Secrecy Act and lookback consulting	2,749	-	4,918	-

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expenses							
Other	6,325	5,014	18,880	13,075			
Total non-interest expense	33,135	26,384	98,355	74,686			
Income from continuing operations before income tax expense	1,535	3,089	9,584	14,343			
Income tax provision	45	935	282	4,344			
Net income from continuing operations	\$ 1,490	\$ 2,154	\$ 9,302	\$ 9,999			
Net income (loss) from discontinued operations, net of tax	(18,295)	2,634	(25,471)	7,787			
Net income (loss) available to common shareholders	\$ (16,805)	\$ 4,788	\$ (16,169)	\$ 17,786			
Net income per share from continuing operations - basic	\$ 0.04	\$ 0.06	\$ 0.25	\$ 0.27			

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Net income (loss) per share from discontinued operations - basic	\$	(0.49)	\$	0.07	\$	(0.68)	\$	0.21
Net income (loss) per share - basic	\$	(0.45)	\$	0.13	\$	(0.43)	\$	0.48
Net income per share from continuing operations - diluted	\$	0.04	\$	0.06	\$	0.25	\$	0.26
Net income (loss) per share from discontinued operations - diluted	\$	(0.49)	\$	0.07	\$	(0.68)	\$	0.21
Net income (loss) per share - diluted	\$	(0.45)	\$	0.13	\$	(0.43)	\$	0.47

The accompanying notes are an integral part of these consolidated statements.



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## THE BANCORP INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the nine months ended September 30,		
	2014	2013	
	(in thousands)		
Net income (loss)	\$	(16,169)	\$ 17,786
Other comprehensive income (loss), net of reclassifications into net income:			
Other comprehensive income (loss)			
Change in net unrealized gain/(loss) during the period	16,979	(9,717)	
Reclassification adjustments for gains included in income	(364)	(785)	
Amortization of losses previously held as available-for-sale	16	87	
Net unrealized gain/(loss) on investment securities	16,631	(10,415)	
Deferred tax expense (benefit)			
Securities available-for-sale			
Change in net unrealized gain/(loss) during the period	5,943	(3,401)	
Reclassification adjustments for gains included in income	(128)	(275)	
Amortization of losses previously held as available-for-sale	6	30	
Income tax expense (benefit) related to items of other comprehensive income (loss)	5,821	(3,646)	
Other comprehensive income (loss), net of tax and reclassifications into net income	10,810	(6,769)	
Comprehensive income (loss)	\$	(5,359)	\$ 11,017

The accompanying notes are an integral part of these consolidated statements.

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## THE BANCORP INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2014

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2014	37,720,945	\$ 37,721	\$ (866)	\$ 294,576	\$ 27,615	\$ 558	\$ 359,6
Net loss					(16,169)		(16,169)
Common stock issued from option exercises, net of tax benefits	9,249	9	-	94	-	-	103
Common stock issued from option exercises, cashless exercise, net of tax benefits	29,208	30	-	459	(489)	-	-
Common stock issued as restricted shares, net of tax benefits	49,375	49		(49)			-
Stock-based compensation	-	-	-	2,042	-	-	2,042
Other comprehensive income net of reclassification adjustments	-	-	-	-	-	10,810	10,810



and tax

Balance at  
September 30,

2014	37,808,777	\$	37,809	\$	(866)	\$	297,122	\$	10,957	\$	11,368	\$	356,3
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The accompanying notes are an integral part of this consolidated statement.

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## THE BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the nine months ended September 30,	
	2014	2013
Operating activities		
Net income (loss)	\$ (16,169)	\$ 17,786
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,146	4,341
Provision for loan and lease losses	3,420	461
Net amortization of investment securities discounts/premiums	7,448	4,660
Stock-based compensation expense	2,042	2,357
Loans originated for sale	(427,937)	(189,327)
Sale of loans originated for resale	375,194	215,092
Gain on sales of loans originated for resale	(13,468)	(12,665)
Gain (loss) on sale of fixed assets	(2)	1
Other than temporary impairment on securities held-to-maturity	-	20
Gain on sales of investment securities	(365)	(785)
Increase in accrued interest receivable	(2,525)	(2,944)
Decrease in interest payable	-	(30)
Decrease in other assets	(25,821)	(280)
Decrease (increase) in assets held for sale	156,534	(17,874)
Decrease in liabilities held for sale	(25,306)	(27,763)
Increase (decrease) in other liabilities	(15,127)	16,363
Net cash provided by operating activities	23,064	9,413
Investing activities		
Purchase of investment securities available-for-sale	(402,168)	(607,528)
Purchase of investment securities held-to-maturity	-	(52,899)
Proceeds from sale of investment securities available-for-sale	78,793	61,962
Proceeds from redemptions and prepayments of securities held-to-maturity	195	606
Proceeds from redemptions and prepayments of securities available-for-sale	144,051	174,895
Net increase in loans	(213,364)	(108,425)
Proceeds from sale of fixed assets	14	99
Purchases of premises and equipment	(5,250)	(6,649)
Net cash used in investing activities	(397,729)	(537,939)

Financing activities		
Net increase (decrease) in deposits	(366,182)	283,632
Net increase in securities sold under agreements to repurchase	275	3,509
Proceeds from issuance of common stock	-	1,629
Proceeds from the exercise of options	103	1,653
Net cash (used in) provided by financing activities	(365,804)	290,423
Net decrease in cash and cash equivalents	(740,469)	(238,103)
Cash and cash equivalents, beginning of period	1,235,949	966,588
Cash and cash equivalents, end of period	\$ 495,480	\$ 728,485
Supplemental disclosure:		
Interest paid	\$ 8,104	\$ 8,054
Taxes paid	\$ 2,578	\$ 11,445
Transfers of loans to other real estate owned	\$ 725	\$ -
Transfers of loans to held for sale	\$ -	\$ 27,316

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The accompanying notes are an integral part of these consolidated statements.

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is The Bancorp Bank (the Bank) which is wholly owned by the Company. 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 banking services nationally, including prepaid debit cards, health savings accounts, institutional banking and private label banking. In Europe, the Company maintains three operational service subsidiaries and one subsidiary through which it offers prepaid card issuing services. The principal medium for the delivery of the Company's banking services is the Internet. The Bank is also engaged in specialty lending and offers Small Business Administration ("SBA") loans, leases and security backed lines of credit ("SBLOC") nationally. The Bank's commercial mortgage backed securities department originates loans nationally for sale into secondary markets.

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of September 30, 2014 and for the three and nine month periods ended September 30, 2014 and 2013, 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, 2013 (Form 10-K report). The results of operations for the nine month period ended September 30, 2014 may not necessarily be indicative of the results of operations for the full year ending December 31, 2014.

Note 3. Share-based Compensation

The Company recognizes compensation expense for stock options in accordance with Financial Accounting Standards Board (FASB) Accounting Series Codification (ASC) 718, Stock Based Compensation. The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is usually the vesting period. For grants subject to a service condition, the Company utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Company's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. In accordance with ASC 718, the Company estimates the number of options for which the requisite service is expected to be rendered. At September 30, 2014, the Company had three stock-based compensation plans, which are more fully described in its Annual Report on Form 10-K for the year ended December 31, 2013 and the portions of the Company's Proxy Statement dated March 18, 2014, incorporated therein by reference.

The Company did not grant stock options in the first nine months of 2014. In the first quarter of 2013, the Company granted 215,000 common stock options; 35,000 had a vesting period of one year and 180,000 had a vesting period of four years. The weighted-average fair value of the stock options issued was \$4.85. There were 63,874 common stock options exercised in the nine month period ended September 30, 2014 and 605,494 common stock options exercised in the nine month period ended September 30, 2013. The total intrinsic value of the options exercised during the nine months ended September 30, 2014 and 2013 was \$619,000 and \$523,000, respectively.

The Company estimated the fair value of each grant on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	September 30,	
	2014	2013
Risk-free interest rate	-	1.86%
Expected dividend yield	-	-
Expected volatility	-	49.71%-56.81%

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Expected lives (years) - 4.03-4.22

Expected volatility is based on the historical volatility of the Company's stock and peer group comparisons over the expected life of the grant. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury strip rate in effect at the time of the grant. The life of the option is based on historical factors which include the contractual term, vesting period, exercise behavior and employee terminations. In accordance with ASC 718, Stock Based Compensation, stock based compensation expense for the nine month period ended September 30, 2014 is based on awards that are ultimately expected to vest and has been reduced for estimated forfeitures. The Company estimates forfeitures using historical data based upon the groups identified by management.

A summary of the status of the Company's equity compensation plans is presented below.

	Shares	Weighted average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
	(in thousands, except per share data)			
Outstanding at January 1, 2014	2,620,874	\$ 9.70		
Granted	-	-	-	-
Exercised	(63,874)	9.27	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Outstanding at September 30, 2014	2,557,000	\$ 9.71	5.56	\$ -
Exercisable at September 30, 2014	1,996,500	\$ 9.92	5.08	\$ -

The Company granted 197,481 restricted stock units with a vesting period of four years at a fair value of \$10.46 in the first nine months of 2013. There were no restricted stock units granted in the first nine months of 2014. The total fair value of restricted stock units vested for the nine months ended September 30, 2014 and 2013 was \$886,000 and \$0, respectively.

A summary of the status of the Company's restricted stock units is presented below.

	Shares	Weighted- average grant date fair value		Average remaining contractual term (years)
Outstanding at January 1, 2014	197,841	\$	10.46	2.3
Granted	-		-	-
Vested	(49,460)		-	-
Expired/forfeited	-		-	-
Outstanding at September 30, 2014	148,381			

As of September 30, 2014, there was a total of \$3.0 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.0 year. Related compensation expense for the nine months ended September 30, 2014 and 2013 was \$2.0 million and \$2.5 million respectively.

#### Note 4. Earnings Per Share

The Company calculates earnings per share under ASC 260, Earnings Per Share. Basic earnings per share exclude dilution and are computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period.

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Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

The following tables show the Company's earnings per share for the periods presented:

	For the three months ended September 30, 2014		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings per share from continuing operations			
Net income available to common shareholders	\$ 1,490	37,708,862	\$ 0.04
Effect of dilutive securities			
Common stock options	-	395,110	-
Diluted earnings per share			
Net income available to common shareholders	\$ 1,490	38,103,972	\$ 0.04

	For the three months ended September 30, 2014		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic loss per share from discontinued operations			
Net loss available to common shareholders	\$ (18,295)	37,708,862	\$ (0.49)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$ (18,295)	37,708,862	\$ (0.49)



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For the three months ended  
September 30, 2014

	Income (numerator)	Shares (denominator)	Per share amount
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(dollars in thousands except per share data)

Basic earnings per share			
Net loss available to common shareholders	\$ (16,805)	37,708,862	\$ (0.45)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	\$ (16,805)	37,708,862	\$ (0.45)

Stock options for 2,557,000 shares, exercisable at prices between \$7.81 and \$25.43 per share, were outstanding at September 30, 2014 but were not included in dilutive shares because the the Company had a net loss available to common shareholders.

For the nine months ended  
September 30, 2014

	Income (numerator)	Shares (denominator)	Per share amount
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(dollars in thousands except per share data)

Basic earnings per share from continuing operations			
Net income available to common shareholders	\$ 9,302	37,698,759	\$ 0.25

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Effect of dilutive securities				
Common stock options	-	730,443	-	
Diluted earnings per share				
Net income available to common shareholders	\$	9,302	38,429,202	\$ 0.25

For the nine months ended  
September 30, 2014

Income (numerator)	Shares (denominator)	Per share amount
-----------------------	-------------------------	---------------------

(dollars in thousands except per share data)

Basic loss per share from discontinued operations				
Net loss available to common shareholders	\$	(25,471)	37,698,759	\$ (0.68)
Effect of dilutive securities				
Common stock options	-	-	-	
Diluted loss per share				
Net loss available to common shareholders	\$	(25,471)	37,698,759	\$ (0.68)

For the nine months ended  
September 30, 2014

Income (numerator)	Shares (denominator)	Per share amount
-----------------------	-------------------------	---------------------

(dollars in thousands except per share data)

Basic loss per share				
Net loss available to common shareholders	\$	(16,169)	37,698,759	\$ (0.43)
Effect of dilutive securities				
Common stock options	-	-	-	
Diluted loss per share				
Net loss available to common shareholders	\$	(16,169)	37,698,759	\$ (0.43)

Stock options for 2,557,000 shares exercisable at prices between \$7.36 and \$25.43 per share, were outstanding at September 30, 2014 but were not included in dilutive shares because the the Company had a net loss available to common shareholders.

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For the three months ended  
September 30, 2013

	Income (numerator)	Shares (denominator)	Per share amount
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(dollars in thousands except per share data)

Basic earnings per share from continuing operations			
Net income available to common shareholders	\$ 2,154	37,440,838	\$ 0.06
Effect of dilutive securities			
Common stock options	-	842,479	-
Diluted earnings per share			
Net income available to common shareholders	\$ 2,154	38,283,317	\$ 0.06

For the three months ended  
September 30, 2013

	Income (numerator)	Shares (denominator)	Per share amount
--	-----------------------	-------------------------	---------------------

(dollars in thousands except per share  
data)

Basic earnings per share from discontinued operations

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Net income available to common shareholders	\$	2,634	37,440,838	\$	0.07
Effect of dilutive securities					
Common stock options	-		842,479	-	
Diluted earnings per share					
Net income available to common shareholders	\$	2,634	38,283,317	\$	0.07

For the three months ended  
September 30, 2013

Income (numerator)	Shares (denominator)	Per share amount
-----------------------	-------------------------	---------------------

(dollars in thousands except per share data)

Basic earnings per share					
Net income available to common shareholders	\$	4,788	37,440,838	\$	0.13
Effect of dilutive securities					
Common stock options	-		842,479	-	
Diluted earnings per share					
Net income available to common shareholders	\$	4,788	38,283,317	\$	0.13

Stock options for 13,000 shares, exercisable at prices between \$20.98 and \$25.43 per share, were outstanding at September 30, 2013 but were not included in dilutive shares because the exercise price per share was greater than the average market price.

For the nine months ended  
September 30, 2013

Income (numerator)	Shares (denominator)	Per share amount
-----------------------	-------------------------	---------------------

(dollars in thousands except per share data)

Basic earnings per share from continuing operations					
Net income available to common shareholders	\$	9,999	37,359,230	\$	0.27
Effect of dilutive securities					
Common stock options	-		618,878	(0.01)	
Diluted earnings per share					
Net income available to common shareholders	\$	9,999	37,978,108	\$	0.26

For the nine months ended  
September 30, 2013

	Income (numerator)	Shares (denominator)	Per share amount
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(dollars in thousands except per share data)

Basic earnings per share from discontinued operations			
Net income available to common shareholders	\$ 7,787	37,359,230	\$ 0.21
Effect of dilutive securities			
Common stock options	-	618,878	-
Diluted earnings per share			
Net income available to common shareholders	\$ 7,787	37,978,108	\$ 0.21

For the nine months ended  
September 30, 2013

Income (numerator)	Shares (denominator)	Per share amount
-----------------------	-------------------------	---------------------

(dollars in thousands except per share  
data)

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Basic earnings per share					
Net income available to common shareholders	\$	17,786	37,359,230	\$	0.48
Effect of dilutive securities					
Common stock options	-		618,878	(0.01)	
Diluted earnings per share					
Net income available to common shareholders	\$	17,786	37,978,108	\$	0.47

Stock options for 473,750 shares, exercisable at prices between \$15.94 and \$25.43 per share, were outstanding at September 30, 2013 but were not included in dilutive shares 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 classified as available-for-sale and held-to-maturity at September 30, 2014 and December 31, 2013 are summarized as follows (in thousands):

Available-for-sale	September 30, 2014				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
U.S. Government agency securities	\$ 16,731	\$ 35	\$ -	\$ 16,766	
Federally insured student loan securities	127,384	1,061	(67)	128,378	
Tax-exempt obligations of states and political subdivisions	531,925	13,945	(155)	545,715	
Taxable obligations of states and political subdivisions	60,311	2,238	(158)	62,391	
Residential mortgage-backed securities	363,986	2,669	(1,168)	365,487	
Commercial mortgage-backed securities	134,447	1,384	(1,268)	134,563	
Corporate and other debt securities	188,795	506	(552)	188,749	
	\$ 1,423,579	\$ 21,838	\$ (3,368)	\$ 1,442,049	

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Held-to-maturity	September 30, 2014				
	Amortized cost		Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	\$ 21,041	\$ 500	\$ (4,162)	\$ 17,379	
Other debt securities - pooled	75,910	1,600	-	77,510	
	\$ 96,951	\$ 2,100	\$ (4,162)	\$ 94,889	

Available-for-sale	December 31, 2013				
	Amortized cost		Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	\$ 10,680	\$ 46	\$ -	\$ 10,726	
Federally insured student loan securities	147,717	575	(719)	147,573	
Tax-exempt obligations of states and political subdivisions	378,180	2,721	(1,951)	378,950	
Taxable obligations of states and political subdivisions	78,638	1,276	(746)	79,168	
Residential mortgage-backed securities	323,199	1,838	(2,263)	322,774	
Commercial mortgage-backed securities	118,838	1,919	(410)	120,347	
Corporate and other debt securities	194,010	789	(1,220)	193,579	
	\$ 1,251,262	\$ 9,164	\$ (7,309)	\$ 1,253,117	

Held-to-maturity	December 31, 2013				
	Amortized cost		Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	\$ 21,027	\$ 367	\$ (4,222)	\$ 17,172	

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Other debt securities - pooled	76,178	1,680	-	77,858
	\$	97,205	\$ 2,047	\$ (4,222) \$ 95,030

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to \$3.4 million and \$3.2 million, respectively, at September 30, 2014 and December 31, 2013.

The amortized cost and fair value of the Company's investment securities at September 30, 2014, 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 Amortized cost	Fair value	Held-to-maturity Amortized cost	Fair value
Due before one year	\$ 88,539	\$ 88,761	\$ -	\$ -
Due after one year through five years	338,095	339,616	7,021	7,420
Due after five years through ten years	296,632	302,644	3,172	2,889
Due after ten years	700,313	711,028	86,758	84,580
	\$ 1,423,579	\$ 1,442,049	\$ 96,951	\$ 94,889

At September 30, 2014 and December 31, 2013, investment securities with a book value of approximately \$24.2 million and \$29.1 million, respectively, were pledged to secure securities sold under repurchase agreements as required or permitted by law.

Fair value of available-for-sale securities are based on the fair market value supplied by a third-party market data provider while the fair value of 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 Company periodically reviews its investment portfolio to determine whether unrealized losses are other than temporary, based on an evaluations of the creditworthiness of the issuers/guarantors as well as the underlying collateral if applicable, in addition to the continuing performance of the securities. The Company did not recognize any other-than-temporary impairment charges in the first nine months of 2014. The Company recognized other-than-temporary impairment charges of \$20,000 on one trust preferred security in the first nine months of 2013. The amount of the credit impairment was calculated by estimating the discounted cash flows for those securities.



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The table below indicates the length of time individual securities had been in a continuous unrealized loss position at September 30, 2014 (dollars in thousands):

Available-for-sale 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
Federally insured student loan securities	3	-	-	21,625	(67)	21,625
Tax-exempt obligations of states and political subdivisions	45	9,558	(60)	21,629	(95)	31,187
Taxable obligations of states and political subdivisions	18	5,979	(27)	14,463	(131)	20,442
Residential mortgage-backed securities	33	75,281	(512)	43,206	(656)	118,487
Commercial mortgage-backed securities	30	93,270	(1,088)	7,774	(180)	101,044
Corporate and other debt securities	77	69,492	(299)	31,271	(253)	100,763
Total temporarily impaired investment securities	206	\$ 253,580	\$ (1,986)	\$ 139,968	\$ (1,382)	\$ 393,187

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Held-to-maturity	Number of securities	Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Fair Value
Description of Securities							
Single issuers	2	\$	- \$	- \$	7,960 \$	(4,162) \$	7,960 \$
Total temporarily impaired							

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investment securities	2	\$	-	\$	-	\$	7,960	\$	(4,162)	\$	7,960	\$
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The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2013 (dollars in thousands):

Available-for-sale Description of Securities	Number of securities	Less than 12 months		12 months or longer		Total Fair Value
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	
Federally insured student loan securities	4	\$ 3,300	\$ -	\$ -	\$ -	\$ 3,300
Tax-exempt obligations of states and political subdivisions	9	50,498	(676)	6,202	(44)	56,700
Taxable obligations of states and political subdivisions	229	169,995	(1,951)	-	-	169,995
Residential mortgage-backed securities	52	46,888	(737)	1,808	(9)	48,696
Commercial mortgage-backed securities	38	147,717	(1,656)	55,064	(606)	202,781
Corporate and other debt securities	26	76,668	(399)	405	(11)	77,073
Other equity securities	101	97,904	(1,024)	4,255	(196)	102,159
Total temporarily impaired investment securities	459	\$ 592,970	\$ (6,443)	\$ 67,734	\$ (866)	\$ 660,795

Held-to-maturity Description of Securities	Number of securities	Less than 12 months		12 months or longer		Total Fair Value
		Fair Value	Unrealized losses	Fair Value	Unrealized losses	
Single issuers	2	\$ -	\$ -	\$ 7,887	\$ (4,222)	\$ 7,887
Total temporarily impaired investment securities	2	\$ -	\$ -	\$ 7,887	\$ (4,222)	\$ 7,887

Other securities, included in the held-to-maturity classification at September 30, 2014, consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note, three single issuer trust preferred securities and one pooled trust preferred security.

A total of \$21.0 million of other debt securities - single issuers is comprised of the following: (i) amortized cost of the three single issuer trust preferred securities of \$14.0 million, of which one security for \$1.9 million was issued by a bank and two securities totaling \$12.1 million were issued by two different insurance companies; and (ii) the book value of a bank senior note of \$7.0 million.

A total of \$75.9 million of other debt securities – pooled is comprised of the following: (i) one pooled trust preferred security for \$174,000, which was collateralized by bank trust preferred securities; and (ii) book value of three securities consisting of diversified portfolios of corporate securities of \$75.7 million.

The following table provides additional information related to the Company's single issuer trust preferred securities as of September 30, 2014 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
Security A	\$ 1,897	\$ 2,000	\$ 103	Not rated
Security B	3,172	2,889	(283)	Not rated
Security C	8,950	5,071	(3,879)	Not rated

Class: All of the above are trust preferred securities.

The following table provides additional information related to the Company's pooled trust preferred securities as of September 30, 2014:

Pooled issue	Class	Book value	Fair value	Unrealized gain/(loss)	Credit rating	Subordination
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Pool A (7 performing issuers)	Mezzanine *	\$	174	\$	260	\$	86	CAA1	**
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\* The actual deferrals and defaults as a percentage of the original collateral were 20.27%. Assumed losses resulting from expected deferrals and defaults as a percentage of remaining collateral is .75% annually with 15% recovery with a two year lag.

\*\* There is no excess subordination in these securities.

The Company has evaluated the securities in the above tables and has concluded that none of these securities has impairment that is other-than-temporary. The Company 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. The Company'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 after 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 other of the debt securities, which include three single issuer trust preferred securities and one pooled trust preferred security, is primarily related to general market conditions and the resultant lack of liquidity in the market. The severity of the temporary impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis for each investment is performed at the security level. 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

The Company originates loans for sale to other financial institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. The Company has elected fair value treatment for these loans to better reflect the economics of the transactions. At September 30, 2014 the Company had \$136.1 million of loans held for sale, which were originated for sale either to institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. During the nine months ended September 30, 2014, the Company recognized a related fair value gain of \$840,000. In the nine months ended September 30, 2014 the Company recognized \$13.1 million in gains upon the sale of loans.

Major classifications of loans, excluding loans held for sale, are as follows (in thousands):

	September 30, 2014	December 31, 2013
SBA non real estate and student loan commercial	\$ 96,079	\$ 53,391
SBA commercial mortgage	95,492	75,666
SBA construction	16,472	51
Total commercial loans	208,043	129,108
Direct lease financing	201,825	175,610
Consumer and other loans	448,497	345,703
	858,365	650,421
Unamortized loan fees and costs	8,400	4,899
Total loans, net of deferred loan costs	\$ 866,765	\$ 655,320

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling \$3.6 million and \$2.0 million at September 30, 2014 and December 31, 2013, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan and lease losses.

The following table provides information about impaired loans at September 30, 2014 and December 31, 2013 (in thousands):

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	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
September 30, 2014					
Without an allowance recorded					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer - home equity	2,055	2,155	-	1,184	-
With an allowance recorded					
Commercial	1,263	1,263	307	1,159	-
Consumer - home equity	1,730	1,730	921	1,298	-
Total					
Commercial	1,263	1,263	307	1,159	-
Consumer - home equity	3,785	3,885	921	2,482	-

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
December 31, 2013					
Without an allowance recorded					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer - home equity	927	927	-	927	-
With an allowance recorded					
Commercial	385	385	95	251	-
Consumer - home equity	429	429	135	190	-
Total					
Commercial	385	385	95	251	-
Consumer - home equity	1,356	1,356	135	1,117	-



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The following tables summarize the Company's non-accrual loans, loans past due 90 days and still accruing and other real estate owned for the periods indicated (the Company had no non-accrual leases at September 30, 2014, September 30, 2013, or December 31, 2013 (in thousands):

	September 30, 2014	September 30, 2013	December 31, 2013
Non-accrual loans			
Commercial	\$ 1,060	\$ 345	\$ 168
Consumer	3,435	1,257	1,356
Total non-accrual loans	4,495	1,602	1,524
Loans past due 90 days or more	264	204	110
Total non-performing loans	4,759	1,806	1,634
Other real estate owned	725	-	-
Total non-performing assets	\$ 5,484	\$ 1,806	\$ 1,634

The Company's loans that were modified as of September 30, 2014 and December 31, 2013 and considered troubled debt restructurings are as follows (dollars in thousands):

September 30, 2014			December 31, 2013		
Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment

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Commercial	1	\$	203	\$	203	1	\$	217	\$	217
Consumer	1	350		350		-	-		-	
Total	2	\$	553	\$	553	1	\$	217	\$	217

The balances below provide information as to how the loans were modified as troubled debt restructurings loans as of September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014			December 31, 2013		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
Commercial	\$ -	\$ 203	\$ -	\$ -	\$ 217	\$ -
Consumer	-	350	-	-	-	-
Total	\$ -	\$ 553	\$ -	\$ -	\$ 217	\$ -

As of September 30, 2014 loans there were no loans that were restructured within the last 12 months that have subsequently defaulted.

As of September 30, 2014 and December 31, 2013, the Company had no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

A detail of the changes in the allowance for loan and lease losses by loan category is as follows (in thousands):

Nine months ended	Commercial			Direct lease			Unallocated	Total
	Commercial	mortgage	Construction	Consumer	financing			
September 30, 2014								
Beginning balance	\$ 417	\$ 499	\$ -	\$ 936	\$ 311	\$ -	\$ -	\$ -
Charge-offs	(42)	-	-	(846)	(323)	-	-	(1,211)
Recoveries	-	-	-	18	-	-	-	18
Provision (credit)	329	74	99	2,019	801	98	98	3,420

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Ending balance	\$	704	\$	573	\$	99	\$	2,127	\$	789	\$	98	\$
Ending balance: Individually evaluated for impairment	\$	307	\$	-	\$	-	\$	921	\$	-	\$	-	\$
Ending balance: Collectively evaluated for impairment	\$	397	\$	573	\$	99	\$	1,206	\$	789	\$	98	\$
Loans: Ending balance	\$	96,079	\$	95,492	\$	16,472	\$	448,497	\$	201,825	\$	8,400	\$
Ending balance: Individually evaluated for impairment	\$	1,263	\$	-	\$	-	\$	3,785	\$	-	\$	-	\$
Ending balance: Collectively evaluated for impairment	\$	94,816	\$	95,492	\$	16,472	\$	444,712	\$	201,825	\$	8,400	\$

Twelve months ended December 31, 2013	Commercial				Direct lease			Total					
	Commercial	mortgage	Construction	Consumer	financing	Unallocated							
Beginning balance	\$	170	\$	136	\$	33	\$	1,799	\$	239	\$	4	\$
Charge-offs	(44)	-	-	-	(446)	-	(30)	-	-	-	-	-	(520)
Recoveries	-	-	-	-	53	-	8	-	-	-	-	-	61
	291	363	(33)	(470)	94	(4)							241

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Provision (credit)													
Ending balance	\$	417	\$	499	\$	-	\$	936	\$	311	\$	-	\$
Ending balance: Individually evaluated for impairment	\$	95	\$	-	\$	-	\$	135	\$	-	\$	-	\$

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Ending balance: Collectively evaluated for impairment	\$	322	\$	499	\$	-	\$	801	\$	311	\$	-	\$
Loans: Ending balance	\$	53,391	\$	75,666	\$	51	\$	345,703	\$	175,610	\$	4,899	\$
Ending balance: Individually evaluated for impairment	\$	385	\$	-	\$	-	\$	1,356	\$	-	\$	-	\$
Ending balance: Collectively evaluated for impairment	\$	53,006	\$	75,666	\$	51	\$	344,347	\$	175,610	\$	4,899	\$

Nine months ended September 30, 2013	Commercial				Direct lease			Total					
	Commercial	mortgage	Construction	Consumer	financing	Unallocated							
Beginning balance	\$	170	\$	136	\$	33	\$	1,799	\$	239	\$	4	\$
Charge-offs	(2)	-	-	-	(354)	-	-	-	-	-	-	-	(356)
Recoveries	-	-	-	-	22	8	-	-	-	-	-	-	30
Provision (credit)	293	336	(33)	(215)	84	(4)	-	-	-	-	-	-	461
Ending balance	\$	461	\$	472	\$	-	\$	1,252	\$	331	\$	-	\$

Ending  
balance:

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Individually evaluated for impairment	\$	85	\$	-	\$	-	\$	36	\$	-	\$	-	\$
Ending balance: Collectively evaluated for impairment	\$	376	\$	472	\$	-	\$	1,216	\$	331	\$	-	\$
Loans: Ending balance	\$	59,325	\$	62,911	\$	-	\$	331,697	\$	177,797	\$	4,308	\$
Ending balance: Individually evaluated for impairment	\$	345	\$	-	\$	-	\$	1,257	\$	-	\$	-	\$
Ending balance: Collectively evaluated for impairment	\$	58,980	\$	62,911	\$	-	\$	330,440	\$	177,797	\$	4,308	\$

The Company did not have loans acquired with deteriorated credit quality at either September 30, 2014 or December 31, 2013.

A detail of the Company's delinquent loans by loan category is as follows (in thousands):

	30-59 Days	60-89 Days	Greater than	Total
September 30, 2014	past due	past due	90 days	past due
Commercial	\$ 351	\$ 319	\$ -	\$ 1,730
	-	-	-	-

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Commercial mortgage									
Construction	-	-	-	-	-	-	-	-	1
Direct lease financing	1,783	1,352	264	-	-	3,399			1
Consumer - other	-	-	-	-	3,435	3,435			4
Consumer - home equity	327	9	-	-	-	336			4
Unamortized loan fees and costs	-	-	-	-	-	-	-	-	8
	\$	2,461	\$	1,680	\$	264	\$	4,495	\$
									8,900

December 31, 2013	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	Current	Total loans
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Commercial	\$	-	\$	-	\$	-	\$	168	\$	168	\$
Commercial mortgage	-	-	-	-	-	-	-	-	-	-	75
Construction	-	-	-	-	-	-	-	-	-	-	51
Direct lease financing	3,427	1,293	110	-	-	-	-	4,830	-	-	17
Consumer - other	425	-	-	-	1,356	-	-	1,781	-	-	30
Consumer - home equity	18	-	-	-	-	-	-	18	-	-	43
Unamortized loan fees and costs	-	-	-	-	-	-	-	-	-	-	4,8
	\$	3,870	\$	1,293	\$	110	\$	1,524	\$	6,797	\$

The Company evaluates its loans under an internal loan risk rating system as a means of identifying problem loans. The following table provides information by credit risk rating indicator for each segment of the loan portfolio excluding loans held for sale at the dates indicated (in thousands):

Risk Rating	Commercial		Construction		Commercial mortgage		Co
	9/30/2014	12/31/2013	9/30/2014	12/31/2013	9/30/2014	12/31/2013	
Pass	\$ 84,708	\$ 52,717	\$ 16,472	\$ -	\$ 73,300	\$ 56,157	\$
Special	-	-	-	-	-	-	35
Mention	-	-	-	-	-	-	2,7
Substandard	1,262	385	-	-	-	-	65
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Unrated subject to review *	-	-	-	-	-	-	-