

Bancorp, Inc.  
Form 10-Q  
September 30, 2015  
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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: June 30, 2015

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

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 September 24, 2015 there were 37,758,237 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

	June 30, 2015 (in thousands)	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 13,269	\$ 8,665
Interest earning deposits at Federal Reserve Bank	936,989	1,059,320
Securities purchased under agreements to resell	40,068	46,250
Total cash and cash equivalents	990,326	1,114,235
Investment securities, available-for-sale, at fair value	1,370,027	1,493,639
Investment securities, held-to-maturity (fair value \$91,934 and \$91,914, respectively)	93,649	93,765
Commercial loans held for sale	284,501	217,080
Loans, net of deferred loan fees and costs	968,033	874,593
Allowance for loan and lease losses	(4,352)	(3,638)
Loans, net	963,681	870,955
Federal Home Loan and Atlantic Central Bankers Bank stock	1,063	1,002
Premises and equipment, net	19,271	17,697
Accrued interest receivable	11,526	11,251
Intangible assets, net	5,541	6,228
Deferred tax asset, net	35,874	33,673
Investment in unconsolidated entity, at fair value	187,186	193,595
Assets held for sale	651,158	887,929
Other assets	43,804	45,268
Total assets	\$ 4,657,607	\$ 4,986,317
<b>LIABILITIES</b>		
Deposits		
Demand and interest checking	\$ 3,993,393	\$ 4,289,586
Savings and money market	321,264	330,798

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Time deposits	1,400	1,400
Total deposits	4,316,057	4,621,784
Securities sold under agreements to repurchase	2,357	19,414
Subordinated debenture	13,401	13,401
Other liabilities	10,038	12,695
Total liabilities	4,341,853	4,667,294
<b>SHAREHOLDERS' EQUITY</b>		
Common stock - authorized, 50,000,000 shares of \$1.00 par value; 37,858,237 and 37,808,777 shares issued at June 30, 2015 and December 31, 2014, respectively	37,858	37,809
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	298,978	297,987
Retained earnings	(27,854)	(28,242)
Accumulated other comprehensive income	7,638	12,335
Total shareholders' equity	315,754	319,023
Total liabilities and shareholders' equity	\$ 4,657,607	\$ 4,986,317

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 June 30,		For the six months ended June 30,	
	2015	2014 (restated)	2015	2014 (restated)
Interest income				
Loans, including fees	\$ 11,534	\$ 8,802	\$ 22,231	\$ 17,266
Interest on investment securities:				
Taxable interest	5,006	5,356	10,066	10,493
Tax-exempt interest	3,117	2,956	6,291	5,040
Federal funds sold/securities purchased under agreements to resell	158	85	322	191
Interest earning deposits	557	411	1,179	1,175
	20,372	17,610	40,089	34,165
Interest expense				
Deposits	3,215	2,695	6,314	5,472
Securities sold under agreements to repurchase	4	11	13	23
Subordinated debenture	116	113	211	228
	3,335	2,819	6,538	5,723
Net interest income	17,037	14,791	33,551	28,442
Provision for loan and lease losses	510	1,173	1,175	2,448
Net interest income after provision for loan and lease losses	16,527	13,618	32,376	25,994
Non-interest income				
Service fees on deposit accounts	1,900	1,377	3,660	2,587
Card payment and ACH processing fees	1,496	1,317	2,749	2,620
Prepaid card fees	11,128	12,898	24,260	26,366
Gain on sale of loans	5,901	5,212	7,577	10,696
Gain on sale of investment securities	193	159	273	400
Leasing income	656	1,015	1,175	1,396
Debit card income	471	456	931	882
Affinity fees	896	668	1,308	1,202
Other	2,083	287	3,568	918
Total non-interest income	24,724	23,389	45,501	47,067



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Non-interest expense				
Salaries and employee benefits	17,384	15,744	32,909	30,889
Depreciation and amortization	1,195	1,133	2,397	2,183
Rent and related occupancy cost	1,401	1,122	2,786	2,149
Data processing expense	3,760	3,463	6,988	6,718
Printing and supplies	568	589	1,183	1,145
Audit expense	773	400	1,199	776
Legal expense	648	302	2,053	932
Amortization of intangible assets	298	304	595	608
FDIC insurance	2,753	1,116	5,606	2,805
Software	1,523	1,123	2,873	2,291
Insurance	501	485	959	936
Telecom and IT network communications	412	480	962	1,001
Securitization and servicing expense	373	703	852	1,281
Consulting	732	409	2,220	1,105
Bank Secrecy Act and lookback consulting expenses	9,212	2,169	14,956	2,169
Other	4,901	4,470	8,756	8,229
Total non-interest expense	46,434	34,012	87,294	65,217
Income (loss) from continuing operations before income taxes	(5,183)	2,995	(9,417)	7,844
Income tax (benefit) provision	(2,684)	1,343	(5,111)	2,966
Net income (loss) from continuing operations	\$ (2,499)	\$ 1,652	\$ (4,306)	\$ 4,878
Discontinued operations				
Income from discontinued operations before income taxes	4,097	12,063	7,196	9,588
Income tax provision	1,424	3,393	2,502	2,517

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Income from discontinued operations, net of tax	2,673		8,670		4,694		7,071
Net income available to common shareholders	\$	174	\$	10,322	\$	388	\$ 11,949
Net income (loss) per share from continuing operations - basic	\$	(0.07)	\$	0.04	\$	(0.11)	\$ 0.13
Net income per share from discontinued operations - basic	\$	0.07	\$	0.23	\$	0.12	\$ 0.19
Net income per share - basic	\$	0.00	\$	0.27	\$	0.01	\$ 0.32
Net income (loss) per share from continuing operations - diluted	\$	(0.07)	\$	0.04	\$	(0.11)	\$ 0.13
Net income per share from discontinued operations - diluted	\$	0.07	\$	0.23	\$	0.12	\$ 0.18
Net income per share - diluted	\$	0.00	\$	0.27	\$	0.01	\$ 0.31

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 six months ended June 30,	
	2015	2014 (restated)
	(in thousands)	
Net income		
Other comprehensive income net of reclassifications into net income:	\$ 388	\$ 11,949
Other comprehensive income		
Change in net unrealized gain during the period	(6,512)	16,863
Reclassification adjustments for losses included in income	(80)	(400)
Reclassification adjustments for foreign currency translation losses	(449)	-
Amortization of losses previously held as available-for-sale	56	11
Net unrealized gain (loss) on investment securities	(6,985)	16,474
Deferred tax expense		
Securities available-for-sale:		
Change in net unrealized gain (loss) during the period	(2,279)	5,902
Reclassification adjustments for losses included in income	(28)	(140)
Amortization of losses previously held as available-for-sale	19	4
Income tax expense (benefit) related to items of other comprehensive income	(2,288)	5,766
Other comprehensive income (loss) net of tax and reclassifications into net income	(4,697)	10,708
Comprehensive income (loss)	\$ (4,309)	\$ 22,657

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 six months ended June 30, 2015

(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, 2015	37,808,777	\$ 37,809	\$ (866)	\$ 297,987	\$ (28,242)	\$ 12,335	\$ 319,038
Net income					388		388
Common stock issued from option exercises, net of tax benefits	-	-	-	-	-	-	-
Common stock issued from option exercises, cashless exercise, net of tax benefits	-	-	-	-	-	-	-
Common stock issued as restricted shares, net of tax benefits	49,460	49		(49)	-		-
Stock-based compensation	-	-	-	1,040	-	-	1,040
Other comprehensive income net of reclassification adjustments	-	-	-	-	-	(4,697)	(4,697)

and tax

Balance at June

30, 2015	37,858,237	\$	37,858	\$	(866)	\$	298,978	\$	(27,854)	\$	7,638	\$	315,7
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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 except per share data)

	For the six months ended June 30,	
	2015	2014 (restated)
Operating activities		
Net income (loss) from continuing operations	\$ (4,306)	\$ 4,878
Net income from discontinued operations, net of tax	4,694	7,071
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,992	2,791
Provision for loan and lease losses	1,175	2,448
Net amortization of investment securities discounts/premiums	7,033	4,794
Stock-based compensation expense	1,040	1,443
Loans originated for sale	(265,021)	(323,926)
Sale of loans originated for resale	205,177	250,052
Gain on sales of loans originated for resale	(7,577)	(10,696)
Gain on sale of fixed assets	(10)	(2)
Gain on sales of investment securities	(273)	(400)
Increase in accrued interest receivable	(275)	(1,954)
Decrease (increase) in other assets	1,612	(3,896)
Increase in discontinued assets held for sale	(19,264)	(24,377)
Decrease in other liabilities	(2,654)	(15,702)
Net cash used in operating activities	(75,657)	(107,476)
Investing activities		
Purchase of investment securities available-for-sale	(54,565)	(343,628)
Proceeds from sale of investment securities available-for-sale	58,666	46,507
Proceeds from redemptions and prepayments of securities held-to-maturity	90	38
Proceeds from redemptions and prepayments of securities available-for-sale	106,071	109,559
Net increase in loans	(93,901)	(166,285)
Net decrease in discontinued loans held for sale	255,723	93,525
Proceeds from sale of fixed assets	166	11
Purchases of premises and equipment	(4,127)	(2,768)
Investment in unconsolidated entity	6,409	-
Net cash provided by (used in) investing activities	274,532	(263,041)

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Financing activities		
Net decrease in deposits	(305,727)	(391,179)
Net decrease in securities sold under agreements to repurchase	(17,057)	(3,740)
Proceeds from the exercise of options	-	103
Net cash used in financing activities	(322,784)	(394,816)
Net decrease in cash and cash equivalents	(123,909)	(765,333)
Cash and cash equivalents, beginning of period	1,114,235	1,235,949
Cash and cash equivalents, end of period	\$ 990,326	\$ 470,615
Supplemental disclosure:		
Interest paid	\$ 2,309	\$ 5,734
Taxes paid	\$ 177	\$ 2,093

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

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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. In its continuing operations, the Bank has four primary lines of specialty lending: security backed lines of credit (SBLOC), leasing, Small Business Administration (SBA) loans and loans generated for sale into capital markets primarily through commercial mortgage backed securities (CMBS). Through the Bank, the Company also provides banking services nationally, which include prepaid cards, private label banking, institutional banking, card payment and other payment processing and health savings accounts. European operations are comprised of three operational service subsidiaries, Transact Payment Services Group Limited, Transact Payment Services Limited and Transact Payment Services Group-Bulgaria EOOD and one subsidiary, Transact Payments Limited, which offer prepaid card and electronic money issuing services.

The Company and the Bank are subject to regulation by certain state and federal agencies and, accordingly, they are examined periodically by those regulatory authorities. As a consequence of the extensive regulation of commercial banking activities, the Company's and the Bank's businesses may be affected by state and federal legislation and regulations.

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of June 30, 2015 and for the three and six month periods ended June 30, 2015 and 2014, 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 (U.S. GAAP) 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, 2014 (Form 10-K report). Note T in those financial statements present restated interim financial statements as described therein. The results of operations for the six month period ended June 30, 2015 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 Standards 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 June 30, 2015, 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, 2014, and the portions of the Company's Proxy Statement for 2014, incorporated therein by reference.

The Company did not grant stock options in the first six months of 2015 or 2014. There were no stock options exercised in the first six month period ended June 30, 2015 and 63,874 common stock options exercised in the six month period ended June 30, 2014. The total intrinsic value of the options exercised during the six months ended June 30, 2015 and 2014 was \$0 and \$619,000, 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:

	June 30,	
	2015	2014
Risk-free interest rate	-	-

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Expected dividend yield	-	-
Expected volatility	-	-
Expected lives (years)	2.0	-

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 expense for the six month period ended June 30, 2015 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 (in thousands, except per share data)	Weighted average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2015	2,602,000	\$ 9.72	5.39	\$ 5,010,208
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(232,500)	14.24	-	-
Forfeited	(20,750)	8.45	-	-
Outstanding at June 30, 2015	2,348,750	\$ 9.28	5.40	\$ 2,030,423
Exercisable at June 30, 2015	2,022,375	\$ 9.35	5.13	\$ 1,766,145

The Company granted 86,992 restricted stock units with a vesting period of two years at a fair value of \$9.11 in the first six months of 2015. There were no restricted stock units granted in the first six months of 2014. The total fair value of restricted stock units vested for the six months ended June 30, 2015 and 2014 was \$517,000 and \$886,000, 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, 2015	148,381	\$ 10.46	2.07
Granted	86,992	9.11	1.75
Vested	(49,460)	10.46	-
Forfeited	(11,830)	9.39	-
Outstanding at June 30, 2015	174,083		1.63

As of June 30, 2015, there was a total of \$3.3 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 1.13 years. Related compensation expense for the six months ended June 30, 2015 and 2014 was \$1.0 million and \$1.4 million respectively.

Note 4. Earnings Per Share

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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. 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 June 30, 2015		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings (loss) per share from continuing operations			
Net income (loss) available to common shareholders	\$ (2,499)	37,758,249	\$ (0.07)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted income (loss) per share			
Net income (loss) available to common shareholders	\$ (2,499)	37,758,249	\$ (0.07)

	For the three months ended June 30, 2015		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings (loss) per share from discontinued operations			
Net income (loss) available to common shareholders	\$ 2,673	37,758,249	\$ 0.07
Effect of dilutive securities			
Common stock options	-	394,894	-
Diluted earnings (loss) per share			
Net income (loss) available to common shareholders	\$ 2,673	38,153,143	\$ 0.07

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For the three months ended  
June 30, 2015

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

Basic earnings (loss) per share			
Net income (loss) available to common shareholders	\$ 174	37,758,249	\$ 0.00
Effect of dilutive securities			
Common stock options	-	394,894	-
Diluted earnings (loss) per share			
Net income (loss) available to common shareholders	\$ 174	38,153,143	\$ 0.00

Stock options for 877,000 shares, exercisable at prices between \$9.82 and \$25.43 per share, were outstanding at June 30, 2015, but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

For the six months ended  
June 30, 2015

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



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Basic earnings (loss) per share from continuing operations				
Net income (loss) available to common shareholders	\$	(4,306)	37,751,969	\$ (0.11)
Effect of dilutive securities				
Common stock options	-	-	-	
Diluted earnings (loss) per share				
Net income available (loss) to common shareholders	\$	(4,306)	37,751,969	\$ (0.11)

For the six months ended  
June 30, 2015

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

(dollars in thousands except per share data)

Basic income (loss) per share from discontinued operations				
Net income (loss) available to common shareholders	\$	4,694	37,751,969	\$ 0.12
Effect of dilutive securities				
Common stock options	-	894,248	-	
Diluted income (loss) per share				
Net income (loss) available to common shareholders	\$	4,694	38,646,217	\$ 0.12

For the six months ended  
June 30, 2015

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

(dollars in thousands except per share data)

Basic income(loss) per share				
Net income (loss) available to common shareholders	\$	388	37,751,969	\$ 0.01
Effect of dilutive securities				
Common stock options	-	-	-	
Diluted income (loss) per share				
Net income (loss) available to common shareholders	\$	388	37,751,969	\$ 0.01

Stock options for 877,000 shares, exercisable at prices between \$9.58 and \$25.43 per share, were outstanding at June 30, 2015, but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

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For the three months ended  
June 30, 2014  
(restated)

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	\$	1,652	37,706,491	\$ 0.04
Effect of dilutive securities				
Common stock options	-		560,183	-
Diluted earnings per share				
Net income available to common shareholders	\$	1,652	38,266,674	\$ 0.04

For the  
three  
months  
ended  
June 30,  
2014  
(restated)

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	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	\$ 8,670	37,706,491	\$ 0.23
Effect of dilutive securities			
Common stock options	-	560,183	-
Diluted income per share			
Net income available to common shareholders	\$ 8,670	38,266,674	\$ 0.23

	For the three months ended June 30, 2014 (restated)		
	Income (numerator)	Shares (denominator)	Per share amount
(dollars in thousands except per share data)			
Basic earnings per share			
Net income available to common shareholders	\$ 10,322	37,706,491	\$ 0.27
Effect of dilutive securities			
Common stock options	-	560,183	-
Diluted earnings per share			
Net income available to common shareholders	\$ 10,322	38,266,674	\$ 0.27

Stock options for 227,750 shares, exercisable at prices between \$15.94 and \$25.43 per share, were outstanding at June 30, 2014 but were not included in dilutive shares because the exercise price per share was greater than the average market price.

	For the six months ended June 30, 2014 (restated)		
	Income (numerator)	Shares (denominator)	Per share amount
(dollars in thousands except per share data)			
Basic earnings per share from continuing operations			

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Net income available to common shareholders	\$	4,878	37,693,624	\$	0.13
Effect of dilutive securities					
Common stock options	-		894,248	-	
Diluted earnings per share					
Net income available to common shareholders	\$	4,878	38,587,872	\$	0.13

For the six months ended

June 30, 2014

(restated)

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

(dollars in thousands except per share data)

Basic earnings per share from discontinued operations					
Net income available to common shareholders	\$	7,071	37,693,624	\$	0.19
Effect of dilutive securities					
Common stock options	-		894,248	(0.01)	
Diluted earnings per share					

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Net income available to common shareholders	\$	7,071	38,587,872	\$	0.18
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For the six months ended

June 30, 2014

(restated)

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

Basic earnings per share

Net income available to common shareholders	\$	11,949	37,693,624	\$	0.32
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Effect of dilutive securities

Common stock options	-		894,248		(0.01)
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Diluted earnings per share

Net income available to common shareholders	\$	11,949	38,587,872	\$	0.31
---	----	--------	------------	----	------

Stock options for 3,000 shares, exercisable at prices between \$20.98 and \$25.43 per share, were outstanding at June 30, 2014 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 June 30, 2015 and December 31, 2014 are summarized as follows (in thousands):

Available-for-sale	June 30, 2015							
	Amortized cost		Gross unrealized gains		Gross unrealized losses	Fair value		
U.S. Government agency securities	\$	15,919	\$	19	\$	(8)	\$	15,930
Federally insured student loan securities		122,173		442		(882)		121,733
Tax-exempt obligations of states and political subdivisions		515,598		10,628		(576)		525,650

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Taxable obligations of states and political subdivisions	56,507	2,339	(38)	58,808
Residential mortgage-backed securities	383,593	2,500	(656)	385,437
Commercial mortgage-backed securities	92,676	847	(1,038)	92,485
Foreign debt securities	62,899	191	(160)	62,930
Corporate and other debt securities	107,112	257	(315)	107,054
	\$ 1,356,477	\$ 17,223	\$ (3,673)	\$ 1,370,027

Held-to-maturity	June 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	\$ 17,908	\$ 679	\$ (3,795)	\$ 14,792
Other debt securities - pooled	75,741	1,401	-	77,142
	\$ 93,649	\$ 2,080	\$ (3,795)	\$ 91,934

Available-for-sale	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	\$ 16,519	\$ 42	\$ -	\$ 16,561
Federally insured student loan securities	125,789	613	(390)	126,012
Tax-exempt obligations of states and political subdivisions	535,622	16,027	(380)	551,269
Taxable obligations of states and political subdivisions	58,868	2,614	(103)	61,379
Residential mortgage-backed securities	419,503	3,504	(878)	422,129

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Commercial mortgage-backed securities	123,519	1,220	(1,500)	123,239
Foreign debt securities	67,094	130	(346)	66,878
Corporate and other debt securities	126,610	225	(663)	126,172
	\$ 1,473,524	\$ 24,375	\$ (4,260)	\$ 1,493,639

Held-to-maturity	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	\$ 17,882	\$ 531	\$ (3,820)	\$ 14,593
Other debt securities - pooled	75,883	1,438	-	77,321
	\$ 93,765	\$ 1,969	\$ (3,820)	\$ 91,914

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to \$1.1 million and \$1.0 million, respectively, at June 30, 2015 and December 31, 2014.

The amortized cost and fair value of the Company's investment securities at June 30, 2015, 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 before one year	\$ 277,219	\$ 283,052	\$ -	\$ -
Due after one year through five years	372,163	373,013	7,018	7,599
Due after five years through ten years	288,885	295,488	-	-
Due after ten years	418,210	418,474	86,631	84,335
	\$ 1,356,477	\$ 1,370,027	\$ 93,649	\$ 91,934

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At June 30, 2015 and December 31, 2014, investment securities with a book value of approximately \$22.8 million and \$25.7 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 amount of the credit impairment is calculated by estimating the discounted cash flows for those securities. The Company did not recognize any other-than-temporary impairment charges in the first six months of 2015.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at June 30, 2015 (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	
U.S. Government agency securities	2	\$ 12,261	\$ (8)	\$ -	\$ -	\$ 12,253
Federally insured student loan securities	10	25,260	(257)	40,316	(625)	65,576
Tax-exempt obligations of states and political subdivisions	118	58,419	(369)	30,353	(207)	88,772
Taxable obligations of states and political subdivisions	5	1,216	(1)	4,127	(37)	5,343
Residential mortgage-backed securities	29	31,353	(69)	56,896	(587)	88,249
	34	19,306	(90)	34,438	(948)	53,744



Commercial  
mortgage-backed  
securities

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Foreign debt securities	23	16,004	(115)	7,627	(45)	23,631	(16)
Corporate and other debt securities	47	49,319	(269)	3,897	(46)	53,216	(31)
Total temporarily impaired investment securities	268	\$ 213,138	\$ (1,178)	\$ 177,654	\$ (2,495)	\$ 390,792	\$

Held-to-maturity 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	
Single issuers	1	\$ -	\$ -	\$ 5,193	\$ (3,795)	\$ 5,193	\$ 5,193
Total temporarily impaired investment securities	1	\$ -	\$ -	\$ 5,193	\$ (3,795)	\$ 5,193	\$ 5,193

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 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	
	9	\$ 28,435	\$ (169)	\$ 34,274	\$ (221)	\$ 62,463	\$ 62,463

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Federally insured student loan securities								
Tax-exempt obligations of states and political subdivisions	97	21,458	(134)	46,412	(245)	67,870		
Taxable obligations of states and political subdivisions	24	499	(1)	21,088	(102)	21,587		
Residential mortgage-backed securities	29	43,946	(231)	67,023	(647)	110,969		
Commercial mortgage-backed securities	30	41,231	(883)	47,549	(617)	88,780		
Foreign debt securities	53	24,681	(203)	14,943	(144)	39,624		
Corporate and other debt securities	61	62,984	(568)	16,609	(95)	79,593		
Total temporarily impaired investment securities	303	\$ 223,234	\$ (2,189)	\$ 247,898	\$ (2,071)	\$ 471,147		

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	
Description of Securities							
Single issuers	1	\$ -	\$ -	\$ 5,144	\$ (3,820)	\$ 1,324	\$ 5,144
Total temporarily impaired investment securities	1	\$ -	\$ -	\$ 5,144	\$ (3,820)	\$ 1,324	\$ 5,144

Other securities, included in the held-to-maturity classification at June 30, 2015, consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note, two single issuer trust preferred securities and one pooled trust preferred security.

A total of \$18.0 million of other debt securities - single issuers is comprised of the following: (i) amortized cost of the two single issuer trust preferred securities of \$10.9 million, of which one security for \$1.9 million was issued by a bank and one security for \$8.9 million was issued by an insurance company; and (ii) the book value of a bank senior note of \$7.0 million.

A total of \$75.7 million of other debt securities – pooled is comprised of the following: (i) one pooled trust preferred security for \$82,000, 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 June 30, 2015 (in thousands):

Single issuer	Book value	Fair value	Unrealized gain/(loss)	Credit rating
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Security A	\$	1,902	\$	2,000	\$	98	Not rated
Security B		8,988		5,193		(3,795)	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 June 30, 2015:

Pooled issue	Class	Book value	Fair value	Unrealized gain	Credit rating	Excess subordination
Pool A (7 performing issuers)	Mezzanine	\$ 82	\$ 174	\$ 92	CAA1	*

\* There is no excess subordination for 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 market 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 market 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 June 30, 2015, the fair value of these loans held for sale was \$284.5 million and the unpaid principal balance was \$278.9 million. Included in the gain on sale of loans in the Statement of Operations were gains recognized from changes in the fair value of \$1.3 million for the six months ended June 30, 2015. There were no amounts of changes in fair value related to credit risk. Interest earned on loans held for sale during the period held are recorded in Interest Income-Loans, including fees on the Statement of Operations..

The Company analyzes credit risk prior to making loans on an individual loan basis. The Company considers relevant aspects of the borrowers' financial position and cash flow, past borrower performance, managements's knowledge of market conditions, collateral and the ratio of loan amounts to estimated collateral value in making its credit determinations.

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

	June 30, 2015		December 31, 2014
SBA non real estate	\$	63,390	\$ 62,425
SBA commercial mortgage	85,234		82,317
SBA construction	16,977		20,392
Total SBA loans	165,601		165,134
Direct lease financing	222,169		194,464
SBLOC	512,269		421,862
Other specialty lending	32,118		48,625
Other consumer loans	27,044		36,168

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	959,201		866,253
Unamortized loan fees and costs	8,832		8,340
Total loans, net of deferred loan costs	\$ 968,033	\$	874,593

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling \$1.7 million and \$1.8 million at June 30, 2015 and December 31, 2014, 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 June 30, 2015 and December 31, 2014 (in thousands):

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment	Interest income recognized
June 30, 2015					
Without an allowance recorded					
SBA non real estate	\$ 263	\$ 263	\$ -	\$ 205	\$ -
Consumer - other	338	338	-	342	-
Consumer - home equity	861	1,257	-	1,078	-
With an allowance recorded					
SBA non real estate	976	976	259	710	-
Consumer - other	-	-	-	-	-
Consumer - home equity	750	750	750	970	-
Total					
SBA non real estate	1,239	1,239	259	915	-
Consumer - other	338	338	-	342	-

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Consumer - home equity	1,611	2,007	750	2,048	-
December 31, 2014 Without an allowance recorded					
SBA non real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer - other	346	346	-	139	-
Consumer - home equity	827	927	-	1,043	-
With an allowance recorded					
SBA non real estate	197	197	40	967	-
Consumer - other	-	-	-	369	-
Consumer - home equity	1,080	1,080	271	885	-
Total					
SBA non real estate	197	197	40	967	-
Consumer - other	346	346	-	508	-
Consumer - home equity	1,907	2,007	271	1,928	-

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 June 30, 2015, June 30, 2014, or December 31, 2014 (in thousands):

	June 30, 2015	June 30, 2014 (restated)	December 31, 2014
Non-accrual loans			
SBA non real estate	\$ 1,055	\$ 1,233	\$ -



Consumer	1,611	2,180	1,907
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Total non-accrual loans	2,666		3,413		1,907
Loans past due 90 days or more	620		119		149
Total non-performing loans	3,286		3,532		2,056
Other real estate owned	-		-		-
Total non-performing assets	\$	3,286	\$	3,532	\$ 2,056

The Company's loans that were modified as of June 30, 2015 and December 31, 2014 and considered troubled debt restructurings are as follows (dollars in thousands):

	June 30, 2015			December 31, 2014		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
SBA non real estate	1	\$ 184	\$ 184	1	\$ 197	\$ 197
SBA commercial mortgage	4	16,998	16,998	-	-	-
Consumer	2	443	443	1	346	346
Total	7	\$ 17,625	\$ 17,625	2	\$ 543	\$ 543

The balances below provide information as to how the loans were modified as troubled debt restructurings loans as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015			December 31, 2014		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
SBA non real estate	\$ -	\$ 184	\$ -	\$ -	\$ 197	\$ -
SBA commercial mortgage	-	14,050	2,948	-	-	-
Consumer	-	338	105	-	346	-
Total	\$ -	\$ 14,572	\$ 3,053	\$ -	\$ 543	\$ -

As of June 30, 2015, there were no loans that had been restructured within the last 12 months that have subsequently defaulted.

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As of June 30, 2015 and December 31, 2014, the Company had no commitments to lend additional funds to loan customers whose loan 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):

	SBA non real estate	SBA commercial mortgage	SBA construction	Direct lease financing	SBLOC	Other specialty lending
June 30, 2015						
Beginning balance	\$ 385	\$ 461	\$ 114	\$ 836	\$ 562	\$ 6
Charge-offs	(65)	-	-	(9)	-	-
Recoveries	-	-	-	-	-	-
Provision (credit)	576	(159)	(23)	41	112	21
Ending balance	\$ 896	\$ 302	\$ 91	\$ 868	\$ 674	\$ 8

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Ending  
balance:  
Individually  
evaluated  
for  
impairment

\$	242	\$	-	\$	-	\$	-	\$	-
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Ending  
balance:  
Collectively  
evaluated  
for  
impairment

\$	654	\$	302	\$	91	\$	868	\$	674	\$	8
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Loans:

Ending  
balance

\$	63,390	\$	85,234	\$	16,977	\$	222,169	\$	512,269	\$	32,11
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Ending  
balance:  
Individually  
evaluated  
for  
impairment

\$	976	\$	-	\$	-	\$	-	\$	-
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Ending  
balance:  
Collectively  
evaluated  
for  
impairment

\$	62,414	\$	85,234	\$	16,977	\$	222,169	\$	512,269	\$	32,11
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December  
31, 2014

Beginning  
balance

(restated)	\$	419	\$	496	\$	-	\$	311	\$	293	\$
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Charge-offs	(307)	-	-	(323)	(3)	-	-
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Recoveries	12	-	-	25	-	-
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Provision

(credit)	261	(35)	114	823	272	65
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Ending  
balance

\$	385	\$	461	\$	114	\$	836	\$	562	\$	6
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Ending balance: Individually evaluated for impairment	\$	40	\$	-	\$	-	\$	-	\$	-	\$	
Ending balance: Collectively evaluated for impairment	\$	345	\$	461	\$	114	\$	836	\$	562	\$	6
Loans: Ending balance	\$	62,425	\$	82,317	\$	20,392	\$	194,464	\$	421,862	\$	48,62
Ending balance: Individually evaluated for impairment	\$	197	\$	-	\$	-	\$	-	\$	-	\$	-
Ending balance: Collectively evaluated for impairment	\$	62,228	\$	82,317	\$	20,392	\$	194,464	\$	421,862	\$	48,62
June 30, 2014 (restated) Beginning balance	\$	419	\$	496	\$	-	\$	311	\$	293	\$	1

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Charge-offs	-	-	-	(1)	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision (credit)	235	(5)	52	678	74	54		
Ending balance	\$ 654	\$ 491	\$ 52	\$ 988	\$ 367	\$ 5		
Ending balance: Individually evaluated for impairment	\$ 385	\$ -	\$ -	\$ -	\$ -	\$ -		
Ending balance: Collectively evaluated for impairment	\$ 269	\$ 491	\$ 52	\$ 988	\$ 367	\$ 5		
Loans: Ending balance	\$ 53,046	\$ 86,600	\$ 4,748	\$ 181,007	\$ 319,854	\$ 42,200		
Ending balance: Individually evaluated for impairment	\$ 1,307	\$ -	\$ -	\$ -	\$ -	\$ -		
Ending balance: Collectively evaluated for impairment	\$ 51,739	\$ 86,600	\$ 4,748	\$ 181,007	\$ 319,854	\$ 42,200		

The Company did not have loans acquired with deteriorated credit quality at either June 30, 2015 or December 31, 2014.

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