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Net cash provided by financing activities
978,579 624,311
Net increase in cash and cash equivalents
718,949 395,346
Cash and cash equivalents, beginning of period
472,319 354,459
Cash and cash equivalents, end of period
\$1,191,268 \$749,805
Supplemental disclosure:

Interest paid
\$9,072 \$11,463
Taxes paid
\$5,132 \$681
Transfers of loans to other real estate owned
\$5,749 \$189

The accompanying notes are an integral part of these statements.

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

Note 1. Formation and Structure of Company

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

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of September 30, 2011 and for the three and nine month periods ended September 30, 2011 and 2010, 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, 2010 (Form 10-K report). The results of operations for the three and nine month periods ended September 30, 2011 may not necessarily be indicative of the results of operations for the full year ending December 31, 2011.

Note 3. Share-based Compensation

The Company accounts for its share-based compensation according to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic 718, Compensation—Stock Compensation, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under ASC topic 718, all forms of share-based payments to employees, including employee stock options and phantom stock units, are treated the same as other forms of compensation by recognizing the related cost in expense. The expense of the award generally is measured at fair value at the grant date. The impact of ASC topic 718 is reflected in net earnings and related per share amounts for the three and nine months ended September 30, 2011 and 2010. At September 30, 2011, the Company had three stock-based compensation plans, which are more fully described in its Form 10-K report and the portions of the Company's Proxy Statement dated March 23, 2011, incorporated therein by reference.

In May 2011, the Company adopted a Stock Option and Equity Plan (the 2011 Plan). Employees, directors and consultants (with restrictions) are eligible to participate in the 2011 Plan. The option term may not exceed 10 years from the date of the grant. An employee or consultant who possesses more than 10 percent of voting power of all classes of stock for the Company, or any parent or subsidiary may not have options with terms exceeding 5 years from the date of grant. An aggregate of 1,400,000 shares of common stock were reserved for issuance by the 2011 plan.

The fair value of each grant of stock option and stock appreciation right is estimated on the date of the grant using the Black-Scholes option pricing model. The significant assumptions utilized in applying the Black-Scholes options-pricing model are the risk-free interest rate, expected term, dividend yield and expected volatility. The risk-free interest rate is the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term used in the assumption for the model. The expected term of an option or stock appreciation right is based on historical experience of similar awards. The dividend yield is determined by dividing per share and stock appreciation rights unit dividends by the grant date stock price. The expected volatility is based on the volatility of the Company's stock price over a historical period as comparable as possible to the expected term. During the third quarter of 2011, the Company granted 460,000 stock options at a fair value of \$3.68 which vest evenly over four years and 40,000 stock options at a fair value of \$3.36 which vest over one year. During the third quarter of 2010, the Company granted no stock options. The weighted average assumptions used in the Black-Scholes valuation model for the stock options are shown below.

| | September 30, | | | |
|-------------------------|---------------|---|-------|---|
| | 2011 | | 2010 | |
| Risk-free interest rate | 2.19 | % | 3.45 | % |
| Expected dividend yield | - | | - | |
| Expected volatility | 53.10 | % | 55.40 | % |
| Expected lives (years) | 5.47 | | 5.08 | |

As of September 30, 2011, there was \$5,570,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the plans; that cost is expected to be recognized over a weighted average period of 2.95 years. There were no stock options exercised for the nine month periods ending September 30, 2011 and 2010. Related compensation expense for the nine months ended September 30, 2011 and 2010 was \$1,276,000 and \$372,000 respectively. The following tables are a summary of activity in the plans for the periods shown:

For the nine months ended September 30, 2011

Stock options:

| | Shares | Weighted average exercise price | Weighted- average remaining contractual term (years) | Aggregate intrinsic value |
|-----------------------------------|---------------------------------------|--|---|---------------------------------|
| | (in thousands, except per share data) | | | |
| Outstanding at January 1, 2011 | 2,244,864 | \$10.71 | | |
| Granted | 510,000 | 7.40 | - | - |
| Exercised | - | - | - | - |
| Forfeited | (8,749) | 9.12 | - | - |
| Outstanding at September 30, 2011 | 2,746,115 | \$10.10 | 6.65 | \$- |
| Exercisable at September 30, 2011 | 1,295,365 | | 3.73 | \$- |

Stock appreciation rights:

| | Shares | Weighted- average price | Average remaining contractual term (years) |
|--------------------------------------|--------|-------------------------------|--|
| Outstanding at beginning of the year | 60,000 | \$11.41 | |
| Granted | - | - | - |
| Exercised | - | - | - |
| Expired/forfeited | - | - | - |
| Outstanding at end of period | 60,000 | \$11.41 | 6.45 |

Note 4. Earnings Per Share

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

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

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

| | For the three months ended September 30, 2011 | | |
|---|--|-------------------------|---------------------|
| | Income (numerator) (dollars in thousands except per share data) | Shares (denominator) | Per share amount |
| Basic earnings per share | | | |
| Net income available to common shareholders | \$2,282 | 33,196,281 | \$0.07 |
| Effect of dilutive securities | | | |
| Stock options | - | 7,381 | - |
| Diluted earnings per share | | | |
| Net income available to common shareholders | \$2,282 | 33,203,662 | \$0.07 |

Stock options for 2,766,115 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$7.36 and \$25.43 per share, were outstanding at September 30, 2011 but were not included in the diluted earnings per share computation because the exercise price per share was greater than the average market price of the common stock.

| | For the nine months ended September 30, 2011 | | |
|---|--|-------------------------|---------------------|
| | Income (numerator) (dollars in thousands except per share data) | Shares (denominator) | Per share amount |
| Basic earnings per share | | | |
| Net income available to common shareholders | \$5,630 | 31,500,347 | \$0.18 |
| Effect of dilutive securities | | | |
| Stock options | - | 6,461 | - |
| Diluted earnings per share | | | |
| Net income available to common shareholders | \$5,630 | 31,506,808 | \$0.18 |

Stock options for 2,766,115 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$7.36 and \$25.43 per share, were outstanding at September 30, 2011 but were not included in the diluted earnings per share computation because the exercise price per share was greater than the average market price of the common stock.

| | For the three months ended September 30, 2010 | | |
|--|--|--------|-----------|
| | Income | Shares | Per share |

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| | (numerator) | (denominator) | amount |
|---|--|---------------|--------|
| | (dollars in thousands except per share data) | | |
| Basic earnings per share | | | |
| Net income available to common shareholders | \$ 588 | 26,181,281 | \$0.02 |
| Effect of dilutive securities | | | |
| Common stock warrants | - | 388,284 | - |
| Diluted earnings per share | | | |
| Net income available to common shareholders | \$ 588 | 26,569,565 | \$0.02 |

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Stock options for 1,755,114 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$7.81 and \$25.43 per share, were outstanding at September 30, 2010 but were not included in the diluted earnings per share computation because the exercise share price was greater than the average market price.

| | For the nine months ended September 30, 2010 | | |
|---|--|-------------------------|---------------------|
| | Income (numerator) (dollars in thousands except per share data) | Shares (denominator) | Per share amount |
| Basic loss per share | | | |
| Net loss available to common shareholders | \$(3,061) | 26,181,281 | \$(0.12) |
| Effect of dilutive securities | | | |
| Stock options | - | - | - |
| Diluted loss per share | | | |
| Net loss available to common shareholders | \$(3,061) | 26,181,281 | \$(0.12) |

Stock options for 1,755,114 shares, common stock warrants for 980,203 shares and stock appreciation rights for 60,000 shares, exercisable at prices between \$3.46 and \$25.43 per share, were outstanding for the nine months ended September 30, 2010 but were not included in the diluted loss per share computation because the Company had a net loss available to common shareholders for the period.

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, 2011 and December 31, 2010 are summarized as follows (in thousands):

| Available-for-sale | September 30, 2011 | | | |
|--|--------------------|------------------------------|-------------------------------|---------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| U.S. Government agency securities | \$9,224 | \$183 | \$- | \$9,407 |
| Tax-exempt obligations of states and political subdivisions | 72,438 | 2,619 | (73) | 74,984 |
| Taxable obligations of states and political subdivisions | 45,337 | 2,215 | (35) | 47,517 |
| Residential mortgage-backed securities | 204,876 | 5,554 | (67) | 210,363 |
| Commercial mortgage-backed securities | 30,326 | 5 | (264) | 30,067 |
| Other debt securities | 40,150 | 1,261 | (342) | 41,069 |
| Other equity securities | 3,000 | - | (45) | 2,955 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 5,354 | - | - | 5,354 |
| | \$410,705 | \$11,837 | \$(826) | \$421,716 |

| Held-to-maturity | September 30, 2011 | | | |
|------------------|--------------------|---------------------|---------------------|------|
| | Amortized | Gross unrealized | Gross unrealized | Fair |

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| | cost | gains | losses | value |
|--|----------|-------|------------|----------|
| Other debt securities - single issuers | \$16,339 | \$136 | \$(4,291) | \$12,184 |
| Other debt securities - pooled | 1,756 | - | (317) | 1,439 |
| | \$18,095 | \$136 | \$(4,608) | \$13,623 |

| Available-for-sale | December 31, 2010 | | | |
|---|-------------------|------------------------|-------------------------|-------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Tax-exempt obligations of states and political subdivisions | \$78,046 | \$335 | \$(3,070) |) \$75,311 |
| Taxable obligations of states and political subdivisions | 28,870 | 261 | (454) |) 28,677 |
| Residential mortgage-backed securities | 76,275 | 704 | (64) |) 76,915 |
| Other debt securities | 42,700 | 1,510 | (186) |) 44,024 |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 6,238 | - | - | 6,238 |
| | \$232,129 | \$2,810 | \$(3,774) |) \$231,165 |

| Held-to-maturity | December 31, 2010 | | | |
|--|-------------------|------------------------|-------------------------|------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Other debt securities - single issuers | \$19,526 | \$128 | \$(4,632) |) \$15,022 |
| Other debt securities - pooled | 1,838 | - | (310) |) 1,528 |
| | \$21,364 | \$128 | \$(4,942) |) \$16,550 |

Available-for-sale security fair values are based on the fair market value supplied by a third-party market data provider while fair values for 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 amortized cost and fair value of the Company's investment securities at September 30, 2011, 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 | \$26,476 | \$26,467 | \$- | \$- |
| Due after one year through five years | 62,689 | 64,331 | - | - |
| Due after five years through ten years | 24,366 | 25,062 | 3,273 | 2,842 |
| Due after ten years | 288,820 | 297,547 | 14,822 | 10,781 |
| Other equity securities | 3,000 | 2,955 | - | - |
| Federal Home Loan and Atlantic Central Bankers Bank stock | 5,354 | 5,354 | - | - |
| | \$410,705 | \$421,716 | \$18,095 | \$13,623 |

At September 30, 2011 and December 31, 2010, investment securities with a book value of approximately \$32.0 million and \$19.8 million, respectively, were pledged as collateral under repurchase agreements as required or permitted by law. There were \$623,000 gross gains on sales of securities in the first nine months of 2011 as compared to gains of \$1.2 million in the first nine months of 2010.

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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, 2011 (dollars in thousands):

| September 30, 2011 Available-for-sale | | Less than 12 months | | 12 months or longer | | Total | |
|---|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| Description of Securities | Number of securities | Fair Value | Unrealized losses | Fair Value | Unrealized losses | Fair Value | Unrealized losses |
| Tax-exempt obligations of states and political subdivisions | 9 | \$ 8,572 | \$ (27) | \$ 3,145 | \$ (46) | \$ 11,717 | \$ (73) |
| Taxable obligations of states and political subdivisions | 8 | 13,827 | (35) | - | - | 13,827 | (35) |
| Residential mortgage-backed securities | 5 | 13,953 | (59) | 519 | (8) | 14,472 | (67) |
| Commercial mortgage-backed securities | 5 | 18,048 | (264) | - | - | 18,048 | (264) |
| Other debt securities | 3 | 12,270 | (21) | 2,542 | (321) | 14,812 | (342) |
| Other equity securities | 1 | 2,955 | (45) | - | - | 2,955 | (45) |
| Total temporarily impaired investment securities | 31 | \$ 69,625 | \$ (451) | \$ 6,206 | \$ (375) | \$ 75,831 | \$ (826) |

| September 30, 2011 Held-to-maturity | | Less than 12 months | | 12 months or longer | | Total | |
|--|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| Description of Securities | Number of securities | Fair Value | Unrealized losses | Fair Value | Unrealized losses | Fair Value | Unrealized losses |
| Other debt securities - single issuers | 2 | \$ - | \$ - | \$ 7,778 | \$ (4,291) | \$ 7,778 | \$ (4,291) |
| Other debt securities - pooled | 2 | - | - | 1,439 | (317) | 1,439 | (317) |
| Total temporarily impaired investment securities | 4 | \$ - | \$ - | \$ 9,217 | \$ (4,608) | \$ 9,217 | \$ (4,608) |

| December 31, 2010 Available-for-sale | | Less than 12 months | | 12 months or longer | | Total | |
|---|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| Description of Securities | Number of securities | Fair Value | Unrealized losses | Fair Value | Unrealized losses | Fair Value | Unrealized losses |

| | | | | | | | |
|---|----|------------|-------------|--------|-----------|------------|-------------|
| Description of Securities | | | | | | | |
| Tax-exempt obligations of states and political subdivisions | 65 | \$ 54,685 | \$ (3,070) | \$ - | \$ - | \$ 54,685 | \$ (3,070) |
| Taxable obligations of states and political subdivisions | 15 | 14,060 | (454) | - | - | 14,060 | (454) |
| Residential mortgage-backed securities | 8 | 26,021 | (64) | - | - | 26,021 | (64) |
| Other securities | 11 | 16,771 | (24) | 748 | (162) | 17,519 | (186) |
| Total temporarily impaired investment securities | 99 | \$ 111,537 | \$ (3,612) | \$ 748 | \$ (162) | \$ 112,285 | \$ (3,774) |

| | | | | | | | |
|--|----------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
| December 31, 2010 | | | | | | | |
| Held-to-maturity | | Less than 12 months | | 12 months or longer | | Total | |
| | Number of securities | Fair Value | Unrealized losses | Fair Value | Unrealized losses | Fair Value | Unrealized losses |
| Description of Securities | | | | | | | |
| Other debt securities - single issuers | 3 | \$ - | \$ - | \$ 10,606 | \$ (4,632) | \$ 10,606 | \$ (4,632) |
| Other debt securities - pooled | 2 | - | - | 1,528 | (310) | 1,528 | (310) |
| Total temporarily impaired investment securities | 5 | \$ - | \$ - | \$ 12,134 | \$ (4,942) | \$ 12,134 | \$ (4,942) |

The other debt securities included in the held-to-maturity classification on the Company's balance sheet at September 30, 2011 consist of four single issuer trust preferred securities issued by either banks or insurance companies and two pooled issuer trust preferred securities, whose collateral is made up of trust preferred securities issued by banks. The amortized cost of the single issuer trust preferred securities was \$16.3 million, of which two securities totaling \$4.3 million were issued by two different banks and two securities totaling \$12.0 million were issued by two different insurance companies. The two pooled trust preferred securities had an aggregate amortized cost of \$1.8 million.

Management evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. 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 since the securities were purchased. The securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to interest rates and changes in credit quality. The Company's unrealized loss for the debt securities, which includes four single issue trust preferred securities and two pooled trust preferred securities, is primarily related to general market conditions and the resultant lack of liquidity in the market. The severity of the impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis of each investment is performed at the security level. However, as a result of its review, the Company did record \$75,000 in other than temporary impairment in the first nine months of 2011 on one pooled trust preferred security which it owns.

Note 6. Loans

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

| | September 30, 2011 | December 31, 2010 |
|------------------------------|--------------------------|-------------------------|
| Commercial | \$461,679 | \$441,799 |
| Commercial mortgage (1) | 577,237 | 580,780 |
| Construction | 242,806 | 203,120 |
| Total commercial loans | 1,281,722 | 1,225,699 |
| Direct financing leases, net | 129,400 | 103,289 |
| Residential mortgage | 96,139 | 93,004 |
| Consumer loans and others | 205,243 | 194,320 |
| | 1,712,504 | 1,616,312 |
| Deferred loan costs | 3,144 | 2,883 |