

Bancorp, Inc.
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: to

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

405 Silverside Road
Wilmington, DE 19809

23-3016517
*(IRS Employer
Identification No.)*

Edgar Filing: Bancorp, Inc. - Form 10-Q

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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

As of May 7, 2007 there were 13,778,857 outstanding shares of Common Stock, \$1.00 par value.

PART I FINANCIAL INFORMATION

Item 1. Financial statements

The Bancorp, Inc.**Consolidated Balance Sheets**

(in thousands)

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 10,783	\$ 13,405
Interest bearing deposits	1,668	1,668
Federal funds sold	148,832	122,048
Total cash and cash equivalents	161,283	137,121
Investment securities, available-for-sale	114,794	115,946
Loans and Leases held for sale		2,996
Loans, net of deferred loan costs	1,102,372	1,061,823
Allowance for loan and lease losses	(8,857)	(8,400)
Loans, net	1,093,515	1,056,419
Premises and equipment, net	3,885	3,951
Accrued interest receivable	7,714	8,537
Goodwill	3,951	3,951
Other assets	9,117	8,913
Total assets	\$ 1,394,259	\$ 1,334,838
LIABILITIES		
Deposits		
Demand (non-interest bearing)	\$ 80,355	\$ 97,326
Savings, money market and interest checking	663,901	513,960
Time deposits	457,728	435,751
Time deposits, \$100,000 and over	26,051	22,218
Total deposits	1,228,035	1,069,255
Securities sold under agreements to repurchase	4,116	8,145
Federal Home Loan Bank advances		100,000
Accrued interest payable	6,520	6,476
Other liabilities	2,138	2,054
Total liabilities	1,240,809	1,185,930
SHAREHOLDERS EQUITY		
Preferred stock authorized 5,000,000 shares of \$0.01 par value; issued and outstanding, 112,591 and 118,628 shares for March 31, 2007 and December 31, 2006, respectively	1	1
Common stock authorized, 20,000,000 shares of \$1.00 par value; issued shares 13,778,857 and 13,724,023 for March 31, 2007 and December 31, 2006, respectively	13,779	13,724

Edgar Filing: Bancorp, Inc. - Form 10-Q

Additional paid-in capital	126,405	125,572
Retained earnings	14,398	10,881
Accumulated other comprehensive loss	(1,133)	(1,270)
Total shareholders' equity	153,450	148,908
Total liabilities and shareholders' equity	\$ 1,394,259	\$ 1,334,838

The accompanying notes are an integral part of these statements.

The Bancorp Inc.

Consolidated Statements of Income

(in thousands)

	For the three months	
	ended March 31,	ended March 31,
	2007	2006
	(unaudited)	
Interest income		
Loans, including fees	\$ 22,501	\$ 14,159
Investment securities	1,676	1,615
Federal funds sold and interest bearing deposits	1,366	784
	25,543	16,558
Interest expense		
Deposits	12,092	5,782
Other borrowed funds	84	12
Federal Home Loan Bank advances	813	538
	12,989	6,332
Net interest income	12,554	10,226
Provision for loan and lease losses	750	600
Net interest income after provision for loan and lease losses	11,804	9,626
Non-interest income		
Service fees on deposit accounts	228	166
Merchant credit card deposit fees	267	331
Loss on call of investment securities	(2)	
Leasing income	569	400
ACH processing fees	113	169
Other	331	234
Total non-interest income	1,506	1,300
Non-interest expense		
Salaries and employee benefits	3,648	3,194
Occupancy expense	726	652
Data processing expense	682	582
Advertising	166	138
Professional fees	601	411
Other	1,612	1,396
Total non-interest expense	7,435	6,373
Income before income tax	5,875	4,553
Income tax	2,293	1,698
Net income	3,582	2,855

Edgar Filing: Bancorp, Inc. - Form 10-Q

Less preferred stock dividends	(18)	(27)
Income allocated to Series A preferred shareholders	(29)	(20)
Net income available to common shareholders	\$ 3,535	\$ 2,808
Net income per share basic	\$ 0.26	\$ 0.21
Net income per share diluted	\$ 0.25	\$ 0.20
Weighted average shares basic	13,753,476	13,639,598
Weighted average shares diluted	14,417,329	14,170,237

The accompanying notes are an integral part of these statements.

THE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**For the three months ended March 31, 2007 (unaudited)**

			Additional		Accumulated		Total
	Common	Preferred	paid-in	Retained	other	Comprehensive	
	Stock	Stock	capital	earnings	comprehensive	income	
Balance at January 1, 2007	\$ 13,724	\$ 1	\$ 125,572	\$ 10,881	\$ (1,270)		\$ 148,908
Cumulative effect of adoption of Fin-48 Accounting for Uncertainty in Income Taxes				(47)			(47)
Balance at January 1, 2007	\$ 13,724	\$ 1	\$ 125,572	\$ 10,834	\$ (1,270)	\$ 12,656	\$ 148,861
Net Income				3,582		3,582	3,582
Preferred Shares converted to Common Shares	6		(6)				
Common Stock issued from option exercise, net of excess benefits	49		810				859
Cash dividends on Series A preferred stock				(18)			(18)
Stock-based compensation expense			29				29
Other comprehensive income, net of reclassification adjustments and taxes					137	137	137
						\$ 3,719	
Balance at March 31, 2007	\$ 13,779	\$ 1	\$ 126,405	\$ 14,398	\$ (1,133)		\$ 153,450

The accompanying notes are an integral part of this statement.

The Bancorp, Inc.

Statements of Cash Flows

(in thousands)

(unaudited)

	For the three months ended	
	March 31 2007	2006
Operating activities		
Net income	\$ 3,582	\$ 2,855
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	528	511
Provision for loan and lease losses	750	600
Net amortization (accretions) of premium (discount)	(4)	(3)
Loss on call of investment securities	2	
Share based compensation expense	29	92
Decrease (increase) in accrued interest receivable	823	(241)
Increase in interest payable	44	382
Increase in other assets	(300)	(46)
(Decrease) increase in other liabilities	37	523
Net cash provided by operating activities	5,491	4,673
Investing activities		
Purchase of investment securities		(10,700)
Proceeds from calls/maturity of investment securities	1,335	4
Purchase of loans	(624)	
Net increase in loans	(37,222)	(80,240)
Purchases of premises and equipment	(364)	(356)
Net cash used in investing activities	(36,875)	(91,292)
Financing activities		
Net increase in deposits	158,780	113,474
Net decrease in securities sold under agreements to repurchase	(4,029)	(1,923)
Repayment of Federal Home Loan advances	(100,000)	
Dividends on Series A preferred stock	(18)	(20)
Net proceeds from the exercise of options	658	92
Excess tax benefit from stock based compensation	155	
Net cash provided by financing activities	55,546	111,623
Net increase in cash and cash equivalents	24,162	25,004
Cash and cash equivalents, beginning of year	137,121	117,093
Cash and cash equivalents, end of period	\$ 161,283	\$ 142,097
Supplemental disclosure:		
Interest Paid	\$ 12,945	\$ 5,950
Taxes Paid	\$ 2,026	\$ 1,050

Edgar Filing: Bancorp, Inc. - Form 10-Q

The accompanying notes are an integral part of these statements.

Note 1. Significant Accounting Policies

Basis of Presentation

The financial statements of The Bancorp, Inc. (Company) as of March 31, 2007 and for the three month periods ended March 31, 2007 and 2006 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, 2006. The results of operations for the three month period ended March 31, 2007 may not necessarily be indicative of the results of operations for the full year ending December 31, 2007.

Note 2. Stock-based Compensation

The Company accounts for its stock options and phantom stock units under Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under SFAS No. 123(R), all forms of share-based payments to employees, including employee stock options and phantom stock units, would be treated the same as other forms of compensation by recognizing the related cost in the income statement. The expense of the award would generally be measured at fair value at the grant date. The impact of this new standard is reflected in the net earnings and related per share amounts for the quarters ended March 31, 2007 and 2006. At March 31, 2007, the Company has two stock-based compensation plans, which are more fully described in its Form 10-K report.

The fair value of each option and phantom stock unit grant is estimated on the date of grant using the Black-Scholes option-pricing model. The significant assumptions utilized in applying the Black-Scholes option pricing model are the risk-free interest rate, expected term, dividend yield, and expected volatility. The risk-free interest rate is the implied yield currently available on the 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 phantom award is based on historical experience of similar awards. The dividend yield is determined by dividing per share and phantom stock unit dividend by the grant date stock price. The expected volatility is based on the volatility of the Company's stock price over a historical period comparable to the expected term. During the first quarter of 2007, the Company granted 10,000 phantom stock units that vest on December 31, 2007. The fair value of the grant was \$25.43, which was the fair value of the common stock on the date of the grant. During the first quarter of 2007 the Company granted 12,000 stock options as compared to 1,000 stock options in the first quarter of 2006. The weighted average assumptions used in the Black-Scholes valuation model for the stock options are shown below.

For the three months

	ended March 31,	
	2007	2006
Risk-free interest rate	4.46%	4.57%
Expected term	5.5 years	7.0 years
Dividend	0%	0%
Expected volatility	29.94%	30.18%

As of March 31, 2007, there was \$293,000 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 period of 3 years. Cash received from option

Edgar Filing: Bancorp, Inc. - Form 10-Q

exercises for the periods ending March 31, 2007 and 2006 was \$658,000 and \$92,000 respectively. Included in net income for the three months ended March 31, 2007 and 2006 was employee compensation expense of \$29,000 and \$92,000 respectively. The following tables are a summary of activity in the plans as of March 31, 2007 and changes during the period then ended:

Stock options:

	For the three months ended March 31, 2007			
	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of the year	1,588,908	\$ 12.10		
Granted	12,000	24.39		
Exercised	48,797	13.48		
Forfeited				
Outstanding at end of period	1,552,111	12.15	6.37	\$ 21,496,579
Options exercisable at end of period	1,522,611	12.06	6.34	\$ 21,219,729

Phantom units:

	For the three months ended March 31, 2007		
	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term (Years)
Outstanding at beginning of the year			
Granted	10,000		
Exercised			
Forfeited			
Outstanding at end of period	10,000		0.76

Note 3. Earnings Per Share

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

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

Edgar Filing: Bancorp, Inc. - Form 10-Q

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

	For the three months ended March 31, 2007		
	Income	Shares	Per share
	(numerator)	(denominator)	amount
(dollars in thousands)			
Basic earnings per share			
Net income available to common shareholders	\$ 3,535	13,753,476	\$ 0.26
Effect of dilutive securities			
Phantom stock units		355	
Options		663,498	(0.01)
Diluted earnings per share			
Net income available to common stockholders plus assumed conversions	\$ 3,535	14,417,329	\$ 0.25

	For the three months ended March 31, 2006		
	Income	Shares	Per share
	(numerator)	(denominator)	amount
(dollars in thousands)			
Basic earnings per share			
Net income available to common shareholders	\$ 2,808	13,639,598	\$ 0.21
Effect of dilutive securities			
Options		530,639	(0.01)
Diluted earnings per share			
Net income available to common stockholders plus assumed conversions	\$ 2,808	14,170,237	\$ 0.20

Note 4. Investment securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's investment securities available-for-sale are summarized as follows (in thousands):

	March 31, 2007			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
U.S. Government agency securities	\$ 59,956	\$	\$ (1,000)	\$ 58,956
Mortgage backed securities	5,497	29	(583)	4,943
Other securities	51,085	111	(301)	50,895
	\$ 116,538	\$ 140	\$ (1,884)	\$ 114,794

	December 31, 2006			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
U.S. Government agency securities	\$ 59,952	\$	\$ (1,327)	\$ 58,625
Mortgage backed securities	5,726	43	(550)	5,219
Other securities	52,193	205	(296)	52,102

Edgar Filing: Bancorp, Inc. - Form 10-Q

\$ 117,871 \$ 248 \$ (2,173) \$ 115,946

The amortized cost and fair value of the Company's investment securities available-for-sale at March 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized cost	Fair value
Due before one year	\$ 7,624	\$ 7,470
Due after one year through five years	72,119	71,156
Due after five years through ten years	3,099	2,988
Due after ten years	28,986	28,470
Federal Home Loan and Atlantic Central Bankers Bank stock	4,710	4,710
	\$ 116,538	\$ 114,794

Note 5. Loans

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

	March 31, 2007	December 31, 2006
	amount (unaudited)	amount
Commercial	\$ 226,888	\$ 199,397
Commercial mortgage	323,741	327,639
Construction	293,915	275,079
Total commercial loans	844,544	802,115
Direct financing leases, net	83,211	92,947
Residential mortgage	57,287	62,413
Consumer loans and others	117,595	108,374
	1,102,637	1,065,849
Deferred loan fees	(265)	(1,030)
Total loans, net of deferred loan fees	\$ 1,102,372	\$ 1,064,819

Note 6. Transaction with affiliates

The Company subleases office space in Philadelphia, Pennsylvania and provides technical support to RAIT Investment Trust (RAIT). The Chairman of RAIT is the Chairman and Chief Executive Officer of the Bank and Chief Executive Office of the Company. The Chief Executive Officer of RAIT is the Chairman of the Company. Under the sublease, RAIT pays the Company rent equal to 45% of the rent paid by the Company and an allocation of common area expenses. Under the technical support agreements, the Company provides technical support for RAIT for a current fee of \$6,500 a month. RAIT paid the Bank \$19,500 and \$15,000 respectively for technical support for the three months ended March 31, 2007 and 2006. RAIT paid the Company approximately \$124,000 for rent for the first three months of 2007 and \$84,000 for the first three months of 2006.

The Company also has a sublease for office space in Philadelphia, Pennsylvania with Cohen Bros. & Company d/b/a Cohen & Company (Cohen & Company) commencing in July 2002 under which Cohen & Company pays rent of \$6,201 and \$6,761 per month for 2007 and 2006 respectively. Cohen & Company paid \$18,604 and \$20,283 in rent for the three months ended March 31, 2007 and 2006. The Chairman of the Company is the principal of Cohen Bros. Financial LLC which owns a majority of Cohen & Company.

Cohen & Company pays the Company fees of \$1,000 per month for technical support and \$3,600 per month for telephone system support services. The agreement was terminated in June 2006 but Cohen & Company continued to pay fees for telephone system support services. Telephone support fees paid for the period ended March 31, 2007 were \$13,308. Technical and telephone support fees for Cohen Bros. were \$13,800 for the period ended March 31, 2006.

The Company maintains deposits for various affiliated companies totaling approximately \$269,116,000 and \$162,514,000 as of March 31, 2007 and December 31, 2006, respectively. The majority of these deposits are short-term in nature and rates are consistent with market rates.

The Company has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. At March 31, 2007, these loans were current as to principal and interest payments and, in the opinion of management, do not involve more than normal risk of collectibility. At March 31, 2007 loans to these related parties amounted to \$4,001,000.

Note 7. Recently issued accounting standards

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in the Company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. In evaluating a tax position for recognition, the Company judgmentally evaluates whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the tax position is measured and recognized in the Company's financial statements as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate resolution. In adopting the provisions of FIN 48, the Company recorded an cumulative-effect adjustment to reduce retained earnings by \$47,000. The Company recognizes interest and penalties, if any, accrued related to the liability in the provision for income taxes. To the extent interest and penalties are ultimately not assessed, amounts accrued as part of the liability would be adjusted in the Company's provision for income taxes.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. However, the application of this Statement may change how fair value is determined. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect that the financial statement impact will be material to its financial position, results of operations or disclosures.

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The fair value option established by SFAS 159 permits, but does not require, all entities to choose to measure eligible items at fair value at specified election dates. An entity would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently assessing what the impact of the adoption of this Statement would be on its financial position and/or results of operations.

Part I Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Forward-Looking Statements

When used in this Form 10-Q, the words believes anticipates expects and similar expressions are intended to identify forward-looking statements. Such statements are subject to the risks and uncertainties more particularly described in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2006. These risks and uncertainties could cause actual results to differ materially. Readers are cautioned not place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as may be required by applicable law, we undertake no obligation to publicly release the results of any revisions to forward-looking statements which we may make to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

In the following discussion we provide information about our results of operations, financial condition, liquidity and asset quality. We intend that this information facilitate your understanding and assessment of significant changes and trends related to our financial condition and results of operations. You should read this section in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operation included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Critical Accounting Policies and Estimates

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

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

We account for income taxes under the liability method whereby we determine deferred tax assets and liabilities based on the difference between the carrying values on our financial statements and the tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense (benefit) is the result of changes in deferred tax assets and liabilities.

Results of Operations

Net Income: Net income for the first quarter of 2007 was \$3.6 million compared to net income of \$2.9 million for the first quarter of 2006. Diluted earnings per share were \$0.25 in the first quarter of 2007 as compared to \$0.20 for the first quarter of 2006. Return on average assets was 1.08% and return on average equity was 9.54% for the first quarter of 2007 as compared to 1.25% and 8.42% respectively for the first quarter of 2006.

Edgar Filing: Bancorp, Inc. - Form 10-Q

Net Interest Income: Our interest income for the first quarter of 2007 increased to \$25.5 million from \$16.6 million in the first quarter of 2006, while our net interest income increased to \$12.6 million from \$10.2 million. Our average loans increased to \$1.072 billion for the first quarter of 2007 from \$701.1 million for the first quarter of 2006. The primary reason for the increases in our interest income and net interest income was our ability to increase our earning assets through continued organic growth of our loan portfolio.

Our net interest margin for the first quarter 2007 decreased to 3.87% from 4.65% for the first quarter of 2006, a decrease of 78 basis points (.78%). The decreased net interest margin resulted from the following:

an increase in average federal funds sold of \$40.9 million, and

a decrease in average demand deposits of \$33.0 million,

For the first quarter of 2007 the average yield on our interest-earning assets increased to 7.88% from 7.53% for first quarter of 2006, an increase of 35 basis points (0.35%). Cost of interest-bearing deposits increased to 4.73% for the first quarter of 2007 from 3.74% for the first quarter of 2006, an increase of 99 basis points (0.99%). The increase in the cost of interest-bearing deposits was the result of continued pricing competition within the market and the consequent increase in the rates we pay on interest-bearing deposits as compared to the first quarter of 2006. Average interest-bearing deposits increased to \$1.022 billion from \$618.5 million, an increase of \$403.3 million or 65.2%.

Average Daily Balances. The following table presents the average daily balances of assets, liabilities and stockholders' equity and the respective interest earned or paid on interest-earning assets and interest-bearing liabilities, as well as average rates, for the periods indicated:

	Average balance	Three months ended March 31,		Average balance	Average rate	
		2007 Interest	Average rate (dollars in thousands)			2006 Interest
Assets:						
Interest-earning assets:						
Loans net of unearned discount	\$ 1,072,293	\$ 22,501	8.39%	\$ 701,090	\$ 14,159	8.08%
Investment securities	115,313	1,676	5.81%	110,689	1,615	5.84%
Interest bearing deposits	1,668		0.00%	1,030		0.00%
Federal funds sold	108,008	1,366	5.06%	67,130	784	4.67%
Net interest-earning assets	1,297,282	25,543	7.88%	879,939	16,558	7.53%
Allowance for loan and lease losses	(8,746)			(5,775)		
Other assets	35,393			37,062		
	\$ 1,323,929			\$ 911,226		
Liabilities and Shareholders' Equity:						
Deposits:						
Demand (non-interest bearing)	\$ 71,945			\$ 104,978		
Interest bearing deposits						
Interest checking	81,462	\$ 567	2.78%	49,465	\$ 247	2.00%

Edgar Filing: Bancorp, Inc. - Form 10-Q

Savings and money market	451,968	4,937	4.37%	296,293	2,773	3.74%
Time	488,344	6,588	5.40%	272,738	2,762	4.05%
Total interest bearing deposits	1,021,774	12,092	4.73%	618,496	5,782	3.74%
FHLB advances	59,556	813	5.46%	44,722	538	4.81%
Other borrowed funds	8,630	84	3.89%	3,978	12	1.21%
Subordinated debt						
Net interest bearing liabilities	1,089,960	12,989	4.77%	667,196	6,332	3.80%
Other liabilities	11,304			3,344		
Shareholders' equity	150,120			135,708		
	\$ 1,323,329			\$ 911,226		
Net yield on average interest earning assets		\$ 12,554	3.87%		\$ 10,226	4.65%

In the first quarter of 2007, average interest-earning assets increased to \$1.297 billion, an increase of \$417.3 million, or 47.4% from the first quarter of 2006

Provision for Loan and Lease Losses. Our provision for loan and lease losses was \$750,000 for the first quarter of 2007 compared to \$600,000 for the first quarter of 2006. At March 31, 2007, our allowance for loan and lease losses amounted to \$8.9 million or .80% of total loans. We believe that our allowance is adequate to cover expected losses. For more information about our provisions and allowance for loan and lease losses and our loss experience see Allowance for Loan and Lease Losses and Summary of Loan and Lease Loss Experience, below.

Non-Interest Income. Non-interest income was \$1.5 million for the first quarter of 2007 as compared to \$1.3 million for the first quarter of 2006, an increase of \$200,000 or 16%. The principal reasons for the increase of non-interest income were an increase from leasing income and other income. Leasing income increased to \$569,000 for the first quarter of 2007, an increase of \$169,000 or 42.3%. This is a result of an increase in end of lease fees from a large leasing relationship. Other income increased \$97,000 or 41.5% to \$331,000. This increase is a result of fees associated with the set up of specialized merchant processing relationships.

Non-Interest Expense. Total non-interest expense was \$7.4 million for the first quarter of 2007, as compared to \$6.4 million for the first quarter of 2006, an increase of \$1.06 million or 16.7%. Salaries and employee benefits amounted to \$3.6 million for the first quarter of 2007 as compared to \$3.2 million for the first quarter of 2006, an increase of \$454,000 or 14.2%. The increase reflects increases in staff for commercial lending and private client staffs. Professional fees increased to \$601,000 for the first quarter of 2007, an increase of \$190,000 or 46.2%. This increase reflects legal fees of approximately \$120,000 for research and compliance matters associated with our processing business. Other operating expense increased to \$1.6 million in the first quarter of 2007 as compared to \$1.3 million for the same period in 2006. The increase of \$216,000 or 15.5% is a result of increase in entertainment costs related to growth in our private client and commercial loan business and deposit account charge-offs.

Liquidity and Capital Resources

Liquidity defines our ability to generate funds to support asset growth, meet deposit withdrawals, satisfy borrowing needs and otherwise operate on an ongoing basis. We invest the funds we do not need for operation primarily in overnight federal funds.

Since commencement of operations, the primary source of funds for our financing activities have been cash inflows from net increases in deposits, which were \$158.8 million in the first three months of 2007. We have also used sources outside of our core deposit products to fund our loan growth including the Federal Home Loan Bank and repurchase agreements. As of March 31, 2007,

we did not have any outstanding Federal Home Loan Bank advances, but did have \$4.1 million in repurchase obligations. During the first quarter of 2007 we were able to repay our Federal Home Loan Bank advances as result of a combination of our deposit growth and loan repayments of approximately \$77.8 million.

Funding was directed primarily at cash outflows required for loans, which were \$37.2 million in the first three months of 2007. At March 31, 2007 we had outstanding commitments to fund loans, including unused lines of credit, of \$401.2 million.

We must comply with capital adequacy guidelines issued by the Federal Deposit Insurance Corporation, or FDIC. A bank must, in general, have a leverage ratio of 5.0%, a ratio of Tier I capital to risk-weighted assets of 6.0% and a ratio of total capital to risk-weighted assets of 10.0% in order to be considered well capitalized. A Tier I leverage ratio is the ratio of Tier 1 capital to average assets for the period. Tier I capital includes common shareholders equity, certain qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill. At March 31, 2007 we were well capitalized under banking regulations.

The following table sets forth the regulatory capital amounts and ratios for the periods indicated:

	Tier 1 capital to average assets ratio	Tier 1 capital to risk-weighted assets ratio	Total Capital to risk-weighted assets ratio
AS OF MARCH 31, 2007:			
The Company	11.43%	13.49%	14.29%
The Bancorp Bank	10.53%	12.40%	13.19%
Well capitalized institution (under FDIC regulations)	5.00%	6.00%	10.00%
AS OF DECEMBER 31, 2006:			
The Company	12.28%	13.50%	14.28%
The Bancorp Bank	11.36%	12.44%	13.22%
Well capitalized institution (under FDIC regulations)	5.00%	6.00%	10.00%

Asset and Liability Management

The management of rate sensitive assets and liabilities is essential to controlling interest rate risk and optimizing interest margins. An interest rate sensitive asset or liability is one that, within a defined time period, either matures or experiences an interest rate change in line with general market rates. Interest rate sensitivity measures the relative volatility of a bank's interest margin resulting from changes in market interest rates.

We monitor and control interest rate risk through a variety of techniques, including use of traditional interest rate sensitivity analysis (also known as gap analysis). Traditional gap analysis involves arranging our interest-earning assets and interest-bearing liabilities by repricing periods and then computing the difference (or interest rate sensitivity gap) between the assets and liabilities that are estimated to reprice during each time period and cumulatively through the end of each time period.

Gap analysis requires estimates as to when individual categories of interest-sensitive assets and liabilities will reprice, and assumes that assets and liabilities assigned to the same repricing period will reprice at the same time and in the same amount. Gap analysis does not account for the fact that repricing of assets and liabilities is discretionary and subject to competitive and other pressures. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. During a period of falling interest rates, a positive gap would tend to adversely affect net interest income, while a negative gap would tend to result in an increase in net interest income. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income while a negative gap would tend to affect net interest income adversely.

Edgar Filing: Bancorp, Inc. - Form 10-Q

The following table sets forth the estimated maturity/repricing structure of our interest-earning assets and interest-bearing liabilities at March 31, 2007. Except as stated below, the amounts of assets or liabilities shown which reprice or mature during a particular period were determined in accordance with the contractual terms of each asset or liability. The majority of interest-bearing demand deposits and savings deposits are assumed to be core deposits, or deposits that will generally remain with us regardless of market interest rates. Therefore, 50% of the core interest checking deposits and 25% of core savings and money market deposits are shown as maturing or repricing within the 1-90 days column with the remainder shown in the 1-3 years column. We estimate the repricing characteristics of these deposits based on historical performance, past experience at other institutions and other deposit behavior assumptions. However, we may choose not to reprice liabilities proportionally to changes in market interest rates for competitive or other reasons. Payments of fixed-rate loans and mortgage-backed securities are scheduled based on their anticipated cash flow, including prepayments based on historical data and current market trends. The table does not necessarily indicate the impact of general interest rate movements on our net interest income because the repricing of certain categories of assets and liabilities is beyond our control as, for example, prepayments of loans and withdrawal of deposits. As a result, certain assets and liabilities indicated as repricing within a stated period may in fact reprice at different times and at different rate levels.

	1-90	91-364	1-3	3-5	Over 5
	days	days	years	years	years
	(dollars in thousands)				
Interest earning assets:					
Loans net of unearned discount	\$ 608,969	\$ 107,052	\$ 188,010	\$ 115,853	\$ 82,488
Investments, available for sale	7,470	71,156	2,988	28,470	4,710
Interest bearing deposits	1,668				
Federal funds sold	148,832				
Total interest earning assets	766,939	178,208	190,998	144,323	87,198
Interest bearing liabilities:					
Interest checking	44,460		44,460		
Savings and money market	143,745		431,236		
Time deposits	306,031	154,101	23,647		
Securities sold under agreements to repurchase	4,116				
Federal Home Loan Bank advances					
Total interest bearing liabilities	498,352	154,101	499,343		
Gap	\$ 268,587	\$ 24,107	\$ (308,345)	\$ 144,323	\$ 87,198
Cumulative gap	\$ 268,587	\$ 292,694	\$ (15,651)	\$ 128,672	\$ 215,870
Gap to assets ratio	19%	2%	-22%	10%	6%
Cumulative gap to assets ratio	19%	21%	-1%	9%	15%

The method used to analyze interest rate sensitivity in this table has a number of limitations. Certain assets and liabilities may react differently to changes in interest rates even though they reprice or mature in the same or similar time periods. The interest rates on certain assets and liabilities may change at different times than changes in market interest rates, with some changing in advance of changes in market rates and some lagging behind changes in market rates. Additionally, the actual prepayments and withdrawals we experience when interest rates change may deviate significantly from those assumed in calculating the data shown in the table.

Financial Condition

General. Our total assets at March 31, 2007 were \$1.394 billion, of which our total loans were \$1.102 billion. At December 31, 2006 our total assets were \$1.335 billion, of which our total loans were \$1.064 billion. Our portfolio of commercial, commercial mortgage and construction loans grew \$42.4 million, or 5.3%, from year-end 2006 to \$844.5 million at March 31, 2007.

Investment portfolio. For detailed information on the composition and maturity distribution of our investment portfolio, see Note 3 to the Notes to Financial Statements contained in this Quarterly Report on Form 10-Q. Total investment securities increased to \$114.8 million on March 31, 2007, a decrease of \$1.2 million or 0.99% from year-end 2007.

Loan Portfolio. Total loans increased to \$1.102 billion at March 31, 2007 from \$1.065 billion at December 31, 2006 an increase of \$37.6 million or 3.5%.

The following table summarizes our loan portfolio by loan category for the periods indicated:

	March 31, 2007 amount (unaudited)	December 31, 2006 amount
Commercial	\$ 226,888	\$ 199,397
Commercial mortgage	323,741	327,639
Construction	293,915	275,079
Total commercial loans	844,544	802,115
Direct financing leases, net	83,211	92,947
Residential mortgage	57,287	62,413
Consumer loans and others	117,595	108,374
	1,102,637	1,065,849
Deferred loan fees	(265)	(1,030)
Total loans, net of deferred loan fees	\$ 1,102,372	\$ 1,064,819

Allowance for Loan and Lease Losses. Management reviews the adequacy of our allowance for loan and lease losses on at least a quarterly basis to ensure that the provision for loan losses which has been charged against earnings is in the amount necessary to maintain our allowance at a level that is appropriate, based on management's estimate of probable losses. Our estimates of loan and lease losses are intended to, and, in management's opinion, do, meet the criteria for accrual of loss contingencies in accordance with Statement of Financial Accounting Standards, or SFAS, No. 5, Accounting for Contingencies, and SFAS No. 114, Accounting by Creditors for Impairment of a Loan. The process of evaluating this adequacy has two basic elements: first, the identification of problem loans or leases based on current financial information and the fair value of the underlying collateral; and second, a methodology for estimating general loss reserves. For loans or leases classified as special mention, substandard or doubtful, we record all estimated losses at the time we classify the loan or lease. This specific portion of the allowance is the total of potential, although unconfirmed, losses for individually classified loans. Because we immediately charge off all identified losses, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The second phase of our analysis represents an allocation of the allowance. This methodology analyzes pools of loans that have similar characteristics and applies historical loss experience and other factors for each pool to determine its allocable portion of the allowance. This estimate is intended to represent the potential unconfirmed and inherent losses within the portfolio. Individual loan pools are created for major loan categories: commercial loans, commercial mortgages, construction loans and direct lease financing, and for the various types of loans to individuals. The historical experience for each loan pool is augmented by accounting for such items as: current economic conditions, current loan portfolio performance, loan policy or management changes, loan concentrations, increases in our lending limit, the average loan size, and other factors as appropriate. The chief risk officer's individual loan oversight

Edgar Filing: Bancorp, Inc. - Form 10-Q

parameters include: borrower relationships over \$3.0 million and loans 90 days or more past due or that have been previously classified as substandard.

Although the performance of our loan portfolio has been above that of our peers, and we do not currently foresee a change in that performance, our analysis for purposes of deriving the historical loss component of the allowance includes factors in addition to our historical loss experience, such as management's experience with similar loan and lease portfolios at other institutions, the historic loss experience of our peers and statistical information from various industry reports such as the FDIC's Quarterly Banking Profile.

While we consider our allowance for loan and lease losses to be adequate based on information currently available, future additions to the allowance may be necessary due to changes in economic conditions or management's assumptions as to future delinquencies, recoveries and losses and management's intent with regard to the disposition of loans and leases. We review the adequacy of the allowance on at least on a quarterly basis to ensure that the provision for loan and lease losses that has been charged against earnings is an amount necessary to maintain the allowance at a level that is appropriate based on management's assessment of probable estimated losses. The increase in loan charge-offs in the first quarter of 2007 is the result of a non-real estate commercial loan to one borrower. The following table summarizes our credit loss experience for each of the periods indicated:

	Three months ended		For the year ended
	March 31, 2007	March 31, 2006 (dollars in thousands)	December 31, 2006
Balance in the allowance for loan and lease losses at beginning of period	\$ 8,400	\$ 5,513	\$ 5,513
Loans charged-off:			
Commercial	300		8
Lease financing		39	93
Consumer	1		
Total	301	39	101
Recoveries:			
Consumer			1
Lease financing	8		12
Total	8		13
Net charge-offs (recoveries)	293	39	88
Provision charged to operations	750	600	2,975
Balance in allowance for loan and lease losses at end of period	\$ 8,857	\$ 6,074	\$ 8,400
Net charge-offs/average loans	0.03%	0.01%	0.01%

Non-Performing Loans. Loans are considered to be non-performing if they are on a non-accrual basis or terms have been renegotiated to provide a reduction or deferral of interest or principal because of a weakening in the financial positions of the borrowers. A loan which is past due 90 days or more and still accruing interest remains on accrual status only when it is both adequately secured as to principal and is in the process of collection. We had no non-accrual or renegotiated loans at March 31, 2007 and 2006. Loans past due 90 days or more still accruing interest amounted to \$279,000 and \$270,000 at March 31, 2007 and 2006 respectively.

Deposits. A primary source for funding our growth is through deposit accumulation. We offer a variety of deposit accounts with a range of interest rates and terms, including savings accounts, checking accounts, money market savings accounts and certificates of deposit. At March 31, 2007, we had total deposits of \$1.228 billion as compared to \$1.069 billion at December 31, 2006, an increase of \$158.8 million or 14.8%. The following table presents the average balance and rates paid on deposits for the periods indicated:

	For the three months ended			
	March 31, 2007		December 31, 2006	
	Average	Average	Average	Average
	balance	rate	balance	rate
Demand (non-interest bearing)	\$ 71,945		\$ 90,144	
Interest checking	81,462	2.78%	60,990	2.39%
Savings and money market	451,968	4.37%	321,220	4.40%
Time	488,344	5.40%	391,716	4.85%
Total deposits	\$ 1,093,719	4.42%	\$ 864,070	4.00%

Borrowings

At March 31, 2007 we had no in advances outstanding from the Federal Home Loan Bank.

Shareholders equity

At March 31, 2007 we had \$153.5 million in shareholders equity. During the first three months of 2007 we issued 48,797 shares as a result of the exercise of stock options with net proceeds to us of approximately \$658,000. Cash dividends paid on Series A preferred stock were \$18,000 for the first quarter of 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There has been no material change in our assessment of our sensitivity to market risk since our presentation in our Annual Report on Form 10-K for the year ended December 31, 2006 except as set forth in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in Securities and Exchange Act of 1934 reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our chief executive officer and chief financial officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

There have been no significant changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting during our most recent quarter.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS

The Exhibits furnished as part of this Quarterly Report on Form 10-Q are identified in the Exhibit Index immediately following the signature page of this Report. Such Exhibit Index is incorporated herein by reference.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BANCORP INC.
(Registrant)

May 10, 2007
Date

/s/ Betsy Z. Cohen
Betsy Z. Cohen
Chief Executive Officer

May 10, 2007
Date

/s/ Martin F. Egan
Martin F. Egan
Senior Vice President, Chief Financial Officer and
Secretary

Exhibit No.	Description
3.1	Certificate of Incorporation ⁽¹⁾
3.2	Bylaws ⁽¹⁾
31.1	Rule 13a-14(a)/15d-14(a) Certifications
31.2	Rule 13a-14(a)/15d-14(a) Certifications
32.1	Section 1350 Certifications
32.2	Section 1350 Certifications

(1) Filed previously as an exhibit to our Registration Statement on Form S-4, as amended, registration number 333-117385, and by this reference incorporated herein.