

Bancorp, Inc.  
Form 10-Q  
November 09, 2006

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

\_\_\_\_\_  
**FORM 10-Q**  
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(Mark One)

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

For the quarterly period ended: September 30, 2006

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OR 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.)*

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*(Address of principal executive offices) (Zip code)*

**Registrant's telephone number, including area code: (302) 385-5000**

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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 November 3, 2006 there were 13,703,437 outstanding shares of Common Stock, \$1.00 par value.

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**PART I FINANCIAL INFORMATION**

## Item 1. Financial statements

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

	September 2006 (unaudited)	December 31, 2005
	(in thousands)	
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 16,431	\$ 26,627
Interest bearing deposits	1,030	1,029
Federal funds sold	156,222	89,437
Total cash and cash equivalents	173,683	117,093
Investment securities, available-for-sale	115,477	103,596
Loans and Leases held for sale	467	805
Loans, net of deferred loan costs	947,034	680,777
Allowance for loan and lease losses	(7,583)	(5,513)
Loans, net	939,451	675,264
Premises and equipment, net	3,692	3,848
Accrued interest receivable	6,618	4,840
Goodwill	3,951	3,951
Other assets	9,725	8,074
Total assets	\$ 1,253,064	\$ 917,471
<b>LIABILITIES</b>		
Deposits		
Demand (non-interest bearing)	\$ 73,555	\$ 94,266
Savings, money market and interest checking	436,312	373,560
Time deposits	490,877	255,178
Time deposits, \$100,000 and over	20,723	9,584
Total deposits	1,021,467	732,588
Securities sold under agreements to repurchase	6,181	6,908
Federal Home Loan Bank advances	75,000	40,000
Accrued interest payable	3,770	778
Other liabilities	1,221	2,250
Total liabilities	1,107,639	782,524
<b>SHAREHOLDERS EQUITY</b>		
Preferred stock - authorized 5,000,000 shares of \$0.01 par value; issued and outstanding, 118,628 and 133,031 shares for September 30, 2006 and December 31, 2005, respectively	1	2
Common stock - authorized, 20,000,000 shares of \$1.00 par value; issued shares 13,703,437 and 13,637,148 for September 30, 2006 and December 31, 2005, respectively	13,703	13,637
Additional paid-in capital	125,292	124,278
Retained earnings	7,706	(1,544)

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Accumulated other comprehensive loss	(1,277)	(1,426)
Total shareholders' equity	145,425	134,947
Total liabilities and shareholders' equity	\$ 1,253,064	\$ 917,471

The accompanying notes are an integral part of these statements.

## The Bancorp Inc. and Subsidiary

## Consolidated Statements of Income

	For the three months		For the nine months	
	ended September 30, 2006	ended September 30, 2005	ended September 30, 2006	ended September 30, 2005
	(unaudited)			
	(in thousands, except share data)			
<b>Interest income</b>				
Loans, including fees	\$ 19,329	\$ 11,039	\$ 50,118	\$ 28,124
Investment securities	1,708	1,481	4,881	3,787
Federal funds sold and interest bearing deposits	802	294	2,311	880
	21,839	12,814	57,310	32,791
<b>Interest expense</b>				
Deposits	9,991	3,632	23,436	8,962
Securities sold under agreements to repurchase	20	18	42	59
Federal Home Loan Bank advances	543	409	1,513	1,045
Subordinated debt				138
	10,554	4,059	24,991	10,204
Net interest income	11,285	8,755	32,319	22,587
Provision for loan and lease losses	825	550	2,125	1,600
Net interest income after provision for loan and lease losses	10,460	8,205	30,194	20,987
<b>Non-interest income</b>				
Service fees on deposit accounts	224	185	609	518
Merchant credit card deposit fees	278	246	861	827
Gain on sales of investment securities				67
Leasing income	227	273	1,032	1,126
ACH Processing Fees	149	90	475	166
Other	211	176	845	571
Total non-interest income	1,089	970	3,822	3,275
<b>Non-interest expense</b>				
Salaries and employee benefits	2,960	2,754	9,302	7,745
Occupancy expense	673	599	1,995	1,749
Data processing expense	570	394	1,781	1,018
Advertising	117	178	415	448
Professional fees	492	414	1,276	955
Other	1,379	1,276	4,288	3,558
Prepayment premium on subordinated debt				1,285
Total non-interest expense	6,191	5,615	19,057	16,978
Net income before income tax	5,358	3,560	14,959	7,284
Income tax	2,074	1,254	5,652	2,750
Net income	3,284	2,306	9,307	4,754

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Less preferred stock dividends and accretion	(29)	(170)	(83)	(578)
Less preferred stock conversion premium		(459)		(459)
Income allocated to Series A preferred shareholders	(17)	(21)	(57)	(45)
Net income available to common shareholders	\$ 3,238	\$ 1,656	\$ 9,167	\$ 3,672
Net income per share - basic	\$ 0.24	\$ 0.12	\$ 0.67	\$ 0.29
Net income per share - diluted	\$ 0.23	\$ 0.12	\$ 0.64	\$ 0.28
Weighted average shares - basic	13,685,520	12,917,879	13,662,718	12,540,093
Weighted average shares - diluted	14,341,277	13,426,497	14,273,151	12,948,421

The accompanying notes are an integral part of these statements.

## The Bancorp, Inc. and Subsidiary

## Statements of Changes in Shareholders' Equity

For the three months ended September 30, 2006 (unaudited) and for the year ended December 31, 2005

	Common	Preferred	Additional	Retained	Accumulated		
	Stock	Stock	paid-in	Earnings	other	Comprehensive	
	Stock	Stock	capital	(Accumulated	comprehensive	income	Total
				deficit)	loss		
Balance at December 31, 2004	\$ 11,888	\$ 11	\$ 117,668	\$ (7,934)	\$ (231)		\$ 121,402
Net Income				7,447		7,447	7,447
Common Stock issued during the acquisition of Mears Leasing	253		3,716				3,969
Preferred Shares converted to Common Shares	1,000	(9)	(991)				
Common Stock issued from option exercise	26		239				265
Common Stock issued from warrant exercise	470		3,531				4,001
Cash dividends on Series A preferred stock				(942)			(942)
Accretion of Series A Preferred Stock			115	(115)			
Other comprehensive loss, net of reclassification adjustments and tax					(1,195)	(1,195)	(1,195)
Total other comprehensive income						\$ 6,252	
Balance at December 31, 2005	13,637	2	124,278	(1,544)	(1,426)		134,947
Net Income				9,307		9,307	9,307
Preferred Shares converted to Common Shares	14	(1)	(13)				
Common Stock issued from option exercise	52		797				849
Cash dividends on Series A preferred stock				(57)			(57)
Stock-based compensation			230				230
Other comprehensive income, net of reclassification adjustments and tax					149	149	149
						\$ 9,456	
Balance at September 30, 2006 (unaudited)	\$ 13,703	\$ 1	\$ 125,292	\$ 7,706	\$ (1,277)		\$ 145,425

The accompanying notes are an integral part of these statements.

## The Bancorp, Inc. and Subsidiary

## Statements of Cash Flows

(in thousands)

(unaudited)

For the nine months ended

	September 30,	
	2006	2005
Operating activities		
Net income	\$ 9,307	\$ 4,754
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,502	1,131
Provision for loan and lease losses	2,125	1,600
Net amortization (accretions) of premium (discount)	(10)	(59)
Net gain on sales of investment securities		(67)
Share based compensation expense	230	
Increase in accrued interest receivable	(1,778)	(163)
Increase in interest payable	2,992	294
Decrease (increase) in other assets	(786)	86
(Decrease) increase in other liabilities	(2,417)	19
Net cash provided by operating activities	11,165	7,595
Investing activities		
Purchase of investment securities	(11,649)	(30,208)
Proceeds from sales of investment securities	4	2,159
Proceeds from calls/maturity of investment securities		42,165
Cash paid in excess of cash equivalents from acquisition		(666)
Purchase of loans	(6,455)	
Net increase in loans	(259,518)	(180,243)
Purchases of premises and equipment	(901)	(1,542)
Net cash used in investing activities	(278,519)	(168,335)
Financing activities		
Net increase in deposits	288,879	269,622
Net increase in securities sold under agreements to repurchase	(727)	494
Net increase (decrease) from Federal Home Loan advances	35,000	(15,000)
Repayment of notes payable		(5,026)
Dividends on Series A preferred stock	(57)	(922)
Net proceeds from the exercise of options	685	239
Net proceeds from exercise of warrants		4,001
Excess Tax benefit from share based payment arrangements	164	
Redemption of subordinated debentures		(5,250)
Net cash provided by financing activities	323,944	248,158
Net increase in cash and cash equivalents	56,590	87,418
Cash and cash equivalents, beginning of year	117,093	19,503
Cash and cash equivalents, end of period	\$ 173,683	\$ 106,921



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Supplemental disclosure:		
Interest Paid	\$ 21,999	\$ 9,910
Taxes Paid	\$ 8,337	\$ 1,775

The accompanying notes are an integral part of these statements.

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THE BANCORP, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Note 1. Significant Accounting Policies**

Basis of Presentation

The financial statements of The Bancorp, Inc. (Company) as of September 30, 2006 and for the three and nine month periods ended September 30, 2006 and 2005 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, 2005. The results of operations for the three and nine month periods ended September 30, 2006 may not necessarily be indicative of the results of operations for the full year ending December 31, 2006.

**Note 2. Stock-based Compensation**

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R) on January 1, 2006 using the modified prospective application method of transition. Prior to January 1, 2006, the Company followed Accounting Principles Bulletin (APB) No. 25 and the disclosure requirement of SFAS 123(R) with *pro forma* disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS 123(R) has been applied. The Company's consolidated financial statement as of and for the third quarter of 2006 reflect the impact of adopting SFAS 123(R). In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

At January 1, 2006, the Company recognized compensation expense for the portion of outstanding awards at January 1, 2006 for which the requisite service had not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS 123 for *pro forma* disclosures. For new grants awarded on or after January 1, 2006, the Company has chosen to continue the use of the Black-Scholes option-pricing model (as used under SFAS 123) to estimate the fair value of each option on the date of grant. In accordance with SFAS 123(R), commencing January 1, 2006, the Company estimates the number of options for which the requisite service is expected to be rendered as compared to accounting for forfeitures as they occurred under SFAS 123. The Company has chosen to recognize compensation expense for new grants using the straight-line method over the vesting period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions based on historical data used for grants at September 30, 2006 and September 30, 2005, respectively: expected volatility of 27.48% and 38%; risk-free interest rate of 4.57% and 4.26%; and an expected life of 7 years and 10 years. 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 SFAS 123(R), stock based compensation expense for the nine months ended September 30, 2006 is based on awards that are ultimately expected to vest and therefore has been reduced for estimated forfeitures. The Company estimates forfeitures using historical data based upon the groups identified by management. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS No. 123(R) to stock-based employee compensation (in thousands).

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	For the three months ended September 30, 2005	For the nine months ended September 30, 2005
Net income, as reported	\$ 2,306	\$ 4,754
Add stock-based compensation expense included in reported net income, net of related tax effects	\$ 12	\$ 12
Less stock-based compensation costs under fair value based method for all awards	(55)	(1,838)
Pro forma net (loss) income	2,263	2,928
Less preferred stock dividends and accretion	(171)	(579)
Less preferred stock conversion premium	(459)	(459)
Income allocated to Series A preferred shareholders	(21)	(45)
Net (loss) income available to common shareholders	\$ 1,612	\$ 1,845
Net (loss) income per share basic, as reported	\$ 0.12	\$ 0.29
Net (loss) income per share basic, pro forma	\$ 0.12	\$ 0.15
Net (loss) income per share diluted, as reported	\$ 0.12	\$ 0.28
Net (loss) income per share diluted, pro forma	\$ 0.12	\$ 0.14

There is no pro forma effect for the nine months ended September 30, 2006 since stock based compensation was recorded under SFAS 123(R) in 2006.

The following table is a summary of the activity in the plans for the nine months ended September 30, 2006 and changes during the period:

	Shares	Weighted- Average Exercise Price	Average Remaining Contractual Years	Aggregate Intrinsic Value
Outstanding at beginning of the year	1,673,380	\$ 12.20		
Granted	1,000	\$ 20.98		
Exercised	51,886	\$ 13.23		
Forfeited		\$		
Outstanding at end of period	1,622,494	\$ 12.17	6.88	\$ 21,611,620
Options exercisable at end of period	1,572,744	\$ 12.12	8.45	\$ 21,027,587

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2006 and 2005 was \$8.45 and \$8.06 respectively. The total intrinsic value of options exercised during the third quarter 2006 and 2005 was \$208,000 and \$0, respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2006 and 2005 were \$348,000 and \$0, respectively. Intrinsic value is measured using the fair market value price of the Company's common stock on the date of exercise less the applicable exercise price.



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As of September 30, 2006, there was a total of \$133,000 of unrecognized compensation cost related to nonvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.13 years.

During the first quarter of 2006 the Company granted 13,500 phantom stock units that vest on December 31, 2006. Each stock unit represents the right to receive one share of common stock of the Company at the time the unit is fully vested. The fair value of the grants was \$17.50, which was the fair value of the common stock on the date of the grant. As of September 30, 2006 there was a total of \$63,000 of unrecognized compensation cost related to unvested phantom stock units. This cost is expected to be recognized over a weighted average period of 0.25 years.

### 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 options to purchase its common stock.

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

	For the three months ended September 30, 2006		
	Income	Shares	Per share
	(numerator)	(denominator) (dollars in thousands)	amount
<b>Basic earnings per share</b>			
Net income available to common shareholders	\$ 3,238	13,685,520	0.24
Effect of dilutive securities			
Options		651,881	(0.01)
Warrants			
Restricted Stock		3,876	

<b>Diluted earnings per share</b>			
Net income available to common stockholders plus assumed conversions	\$ 3,238	14,341,277	\$ 0.23

	For the nine months ended September 30, 2006		
	Income	Shares	Per share
	(numerator)	(denominator) (dollars in thousands)	amount
<b>Basic earnings per share</b>			
Net income available to common shareholders	\$ 9,167	13,662,718	0.67
Effect of dilutive securities			
Options		607,328	(0.03)
Warrants			
Restricted Stock		3,105	

<b>Diluted earnings per share</b>			
Net income available to common stockholders plus assumed conversions	\$ 9,167	14,273,151	\$ 0.64

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	For the three months ended September 30, 2005		
	Income	Shares	Per share
	(numerator)	(denominator) (dollars in thousands)	amount
<b>Basic earnings per share</b>			
Net income available to common shareholders	\$ 1,656	12,917,879	\$ 0.12
<b>Effect of dilutive securities</b>			
Options		462,446	
Warrants		46,172	
<b>Diluted earnings per share</b>			
Net income available to common stockholders plus assumed conversions	\$ 1,656	13,426,497	\$ 0.12

	For the nine months ended September 30, 2005		
	Income	Shares	Per share
	(numerator)	(denominator) (dollars in thousands)	amount
<b>Basic earnings per share</b>			
Net income available to common shareholders	\$ 3,672	12,540,093	\$ 0.29
<b>Effect of dilutive securities</b>			
Options		368,841	(0.01)
Warrants		39,487	
<b>Diluted earnings per share</b>			