

REPUBLIC FIRST BANCORP INC
Form 10-Q
November 12, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____.

Commission File Number: 000-17007

Republic First Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-2486815 (I.R.S. Employer Identification No.)
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50 South 16th Street, Philadelphia, Pennsylvania (Address of principal executive offices)	19102 (Zip code)
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215-735-4422
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO
]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO
]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-Accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, \$0.01 per share	25,972,897
Title of Class	Number of Shares Outstanding as of November 11, 2013

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2013 and December 31, 2012
(Dollars in thousands, except per share data)
(unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$11,468	\$9,097
Interest bearing deposits with banks	31,498	118,907
Federal funds sold	1,339	-
Cash and cash equivalents	44,305	128,004
Investment securities available for sale, at fair value	199,722	189,259
Investment securities held to maturity, at amortized cost (fair value of \$69 and \$69, respectively)	69	67
Restricted stock, at cost	1,570	3,816
Loans held for sale	7,130	82
Loans receivable (net of allowance for loan losses of \$8,704 and \$9,542, respectively)	641,533	608,359
Premises and equipment, net	21,181	21,976
Other real estate owned, net	5,951	8,912
Accrued interest receivable	2,920	3,128
Bank owned life insurance	-	10,490
Other assets	18,487	14,565
Total Assets	\$942,868	\$988,658
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	\$ 159,384	\$ 145,407
Demand – interest bearing	188,572	180,440
Money market and savings	413,970	440,120
Time deposits	83,577	123,234
Total Deposits	845,503	889,201
Accrued interest payable	309	301
Other liabilities	7,493	6,778
Subordinated debt	22,476	22,476
Total Liabilities	875,781	918,756
Shareholders' Equity		
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized; no shares issued	-	-
Common stock, par value \$0.01 per share: 50,000,000 shares authorized; shares issued 26,501,742	265	265
Additional paid in capital	106,990	106,753
Accumulated deficit	(34,447)	(34,228)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)

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Stock held by deferred compensation plan (112,542 shares)	(809)	(809)
Accumulated other comprehensive income (loss)	(1,813)	1,020	
Total Shareholders' Equity	67,087		69,902	
Total Liabilities and Shareholders' Equity	\$942,868		\$988,658	

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2013 and 2012
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest income:				
Interest and fees on taxable loans	\$8,060	\$ 8,131	\$23,888	\$ 24,265
Interest and fees on tax-exempt loans	86	63	266	198
Interest and dividends on taxable investment securities	1,097	1,246	3,187	3,784
Interest and dividends on tax-exempt investment securities	56	118	177	351
Interest on federal funds sold and other interest-earning assets	40	54	143	239
Total interest income	9,339	9,612	27,661	28,837
Interest expense:				
Demand- interest bearing	213	211	615	567
Money market and savings	425	572	1,355	2,157
Time deposits	197	370	680	1,384
Other borrowings	278	283	834	852
Total interest expense	1,113	1,436	3,484	4,960
Net interest income	8,226	8,176	24,177	23,877
Provision for loan losses	250	850	1,175	600
Net interest income after provision for loan losses	7,976	7,326	23,002	23,277
Non-interest income:				
Loan advisory and servicing fees	446	333	1,220	873
Gain on sales of SBA loans	1,106	1,141	3,863	3,337
Service fees on deposit accounts	270	234	769	670
Legal settlements	-	50	238	155
Gain on sale of investment securities	-	-	703	774
Other-than-temporary impairment losses	-	-	-	(33)
Portion recognized in other comprehensive income (before taxes)	-	-	-	2
Net impairment loss on investment securities	-	-	-	(31)
Bank owned life insurance income	-	20	13	55
Other non-interest income	70	53	199	143
Total non-interest income	1,892	1,831	7,005	5,976
Non-interest expenses:				
Salaries and employee benefits	4,486	4,008	13,276	12,105
Occupancy	941	875	2,661	2,591
Depreciation and amortization	671	492	1,626	1,516
Legal	544	547	1,411	2,334
Other real estate owned	745	287	1,771	489
Advertising	103	57	321	207
Data processing	299	288	715	863

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Insurance	155	183	466	493
Professional fees	358	326	1,040	917
Regulatory assessments and costs	327	343	912	1,032
Taxes, other	63	181	566	718
Legal settlement	1,875	-	1,875	-
Other operating expenses	1,541	1,200	3,654	3,368
Total non-interest expense	12,108	8,787	30,294	26,633
Income (loss) before benefit for income taxes	(2,240)	370	(287)	2,620)
Benefit for income taxes	(18)	(28)	(68)	(90)
Net income (loss)	\$(2,222)	\$ 398	\$(219)	\$ 2,710)
Net income (loss) per share:				
Basic	\$(0.09)	\$ 0.02	\$(0.01)	\$ 0.10)
Diluted	\$(0.09)	\$ 0.02	\$(0.01)	\$ 0.10)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
 Consolidated Statements of Comprehensive Income (Loss)
 For the Three and Nine Months Ended September 30, 2013 and 2012
 (Dollars in thousands)
 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income (loss)	\$(2,222	) \$398	\$(219	) \$2,710
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities (pre-tax \$(220), \$1,854, \$(3,717), and \$2,459, respectively)	(141	) 1,188	(2,383	) 1,576
Reclassification adjustment for securities gains (pre-tax \$-, \$-, \$703, and \$774, respectively)	-	-	(450	) (503
Reclassification adjustment for impairment charge (pre-tax \$-, \$-, \$-, and \$31, respectively)	-	-	-	20
Total other comprehensive income (loss)	(141	) 1,188	(2,833	) 1,093
Total comprehensive income (loss)	\$(2,363	) \$1,586	\$(3,052	) \$3,803

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2013 and 2012
(Dollars in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities		
Net income (loss)	\$ (219)	\$ 2,710
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for loan losses	1,175	600
(Gain) loss on sale of other real estate owned	(229)	10
Write down of other real estate owned	1,442	130
Depreciation and amortization	1,626	1,516
Stock based compensation	237	290
Gain on sale of investment securities	(703)	(774)
Impairment charges on investment securities	-	31
Amortization of premiums on investment securities	613	269
Proceeds from sales of SBA loans originated for sale	39,519	35,358
SBA loans originated for sale	(42,704)	(32,185)
Gains on sales of SBA loans originated for sale	(3,863)	(3,337)
Increase in value of bank owned life insurance	(13)	(55)
Increase in accrued interest receivable and other assets	(2,129)	(249)
Increase (decrease) in accrued interest payable and other liabilities	723	(38)
Net cash provided by (used in) operating activities	(4,525)	4,276
Cash flows from investing activities		
Purchase of investment securities available for sale	(50,054)	(60,910)
Proceeds from the sale of securities available for sale	7,946	22,590
Proceeds from the maturity or call of securities available for sale	27,315	22,274
Proceeds from the maturity or call of securities held to maturity	-	74
Proceeds from redemption of FHLB stock	2,246	952
Net increase in loans	(34,595)	(37,845)
Net proceeds from sale of other real estate owned	1,994	334
Surrender proceeds on bank owned life insurance	10,503	-
Premises and equipment expenditures	(831)	(424)
Net cash used in investing activities	(35,476)	(52,955)
Cash flows from financing activities		
Net (decrease) increase in demand, money market and savings deposits	(4,041)	339
Net decrease in time deposits	(39,657)	(84,757)
Net cash used in financing activities	(43,698)	(84,418)
Net decrease in cash and cash equivalents	(83,699)	(133,097)
Cash and cash equivalents, beginning of year	128,004	230,955
Cash and cash equivalents, end of period	\$ 44,305	\$ 97,858

Supplemental disclosures:

Interest paid	\$ 3,476	\$ 5,363
Income taxes paid	\$ 185	\$ -
Non-cash transfers from loans to other real estate owned	\$ 246	\$ 1,307

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2013 and 2012
(Dollars in thousands)
(unaudited)

	Common Stock	Additional in Capital	Paid Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2013	\$ 265	\$ 106,753	\$ (34,228)	\$ (3,099)	\$ (809)	\$ 1,020	\$ 69,902
Net loss			(219)				(219)
Other comprehensive loss, net of tax						(2,833)	(2,833)
Stock based compensation		237					237
Balance September 30, 2013	\$ 265	\$ 106,990	\$ (34,447)	\$ (3,099)	\$ (809)	\$ (1,813)	\$ 67,087
Balance January 1, 2012	\$ 265	\$ 106,383	\$ (37,842)	\$ (3,099)	\$ (809)	\$ (47)	\$ 64,851
Net income			2,710				2,710
Other comprehensive income, net of tax						1,093	1,093
Stock based compensation		290					290
Balance September 30, 2012	\$ 265	\$ 106,673	\$ (35,132)	\$ (3,099)	\$ (809)	\$ 1,046	\$ 68,944

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)

Note 1: Basis of Presentation

Republic First Bancorp, Inc. (the “Company”) is a corporation incorporated under the laws of the Commonwealth of Pennsylvania and a registered bank holding company. The Company offers a variety of retail and commercial banking services to individuals and businesses throughout the Greater Philadelphia and Southern New Jersey area through its wholly-owned subsidiary, Republic First Bank (“Republic” or the “Bank”) which does business under the name Republic Bank. The Company also has three unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of three separate issuances of trust preferred securities.

The Company and Republic encounter vigorous competition for market share in the geographic areas they serve from bank holding companies, national, regional and other community banks, thrift institutions, credit unions and other non-bank financial organizations, such as mutual fund companies, insurance companies and brokerage companies.

The Company and Republic are subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine the Company and Republic for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. The Company follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB sets accounting principles generally accepted in the United States of America (“U.S. GAAP”) that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The Company has evaluated subsequent events through the date of issuance of the financial data included herein.

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

The earnings of the Company depend primarily on the earnings of Republic. The earnings of Republic are dependent primarily upon the level of net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, the Company’s results of operations are subject to risks and uncertainties surrounding Republic’s exposure to changes in the interest rate environment.

Prepayments on residential real estate mortgage and other fixed rate loans and mortgage-backed securities vary significantly and may cause significant fluctuations in interest margins.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates are made by management in determining the allowance for loan losses, carrying values of other real estate owned, assessment of other than temporary impairment (“OTTI”) of investment securities, fair value of financial instruments and the realization of deferred income tax assets. Consideration is given to a variety of factors in establishing these estimates.

In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers’ perceived financial and managerial strengths, the adequacy of underlying collateral, if collateral dependent, or present value of future cash flows, and other relevant factors. An estimate for the carrying value of other real estate owned is normally determined through appraisals which are updated on a regular basis or through agreements of sale that have been negotiated. Because the allowance for loan losses and carrying value of other real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond the Company’s and Republic’s control, the estimates of the allowance for loan losses and the carrying values of other real estate owned could differ materially in the near term.

In estimating OTTI of investment securities, securities are evaluated on at least a quarterly basis and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other than temporary. To determine whether a loss in value is other than temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, the intent to hold the security and the likelihood of the Company not being required to sell the security prior to an anticipated recovery in the fair value. The term “other than temporary” is not intended to indicate that the decline is permanent, but indicates that the prospect for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

In evaluating the Company’s ability to recover deferred tax assets, management considers all available positive and negative evidence. Management also makes assumptions on the amount of future taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments that are consistent with the plans and estimates used to manage the Company’s business. As a result of cumulative losses in recent years and the slow pace of recovery in the current economic environment, the Company has decided to currently exclude future taxable income from its analysis of the ability to recover deferred tax assets and has recorded a valuation allowance against its deferred tax assets. An increase or decrease in the valuation allowance would result in an adjustment to income tax expense in the period and could have a significant impact on the Company’s future earnings.

Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan (“Plan”), under which the Company may grant options, restricted stock or stock appreciation rights to the Company’s employees, directors, and certain consultants. Under the terms of the Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the Plan to 1.5 million shares, are available for such grants. As of September 30, 2013, the only grants under the Plan have been option grants. The Plan provides that the exercise price of each option granted equals the market price of the Company’s stock on the date of the grant. Any option granted vests within one to five years and has a maximum term of ten years.

The Company utilizes the Black-Scholes option pricing model to calculate the estimated fair value of each stock option granted on the date of the grant. A summary of the assumptions used in the Black-Scholes option pricing model for 2013 and 2012 are as follows:

	2013	2012
Dividend yield(1)	0.0%	0.0%
Expected volatility(2)	54.88% to 55.08%	53.12% to 54.49%
Risk-free interest rate(3)	1.28% to 2.02%	1.01% to 1.61%
Expected life(4)	7.0 years	7.0 years

(1) A dividend yield of 0.0% is utilized because cash dividends have never been paid.

(2) Expected volatility is based on Bloomberg’s seven year volatility calculation for “FRBK” stock.

(3) The risk-free interest rate is based on the seven year Treasury bond.

(4) The expected life reflects a 3 to 4 year vesting period, the maximum ten year term and review of historical behavior.

During the nine months ended September 30, 2013 and 2012, 127,287 shares and 61,000 shares vested, respectively. Expense is recognized ratably over the period required to vest. At September 30, 2013, the intrinsic value of the 1,199,780 options outstanding was \$562,985, while the intrinsic value of the 306,217 exercisable (vested) options was \$52,294. During the nine months ended September 30, 2013, 84,000 options were forfeited with a weighted average grant date fair value of \$289,760.

Information regarding stock based compensation for the nine months ended September 30, 2013 and 2012 is set forth below:

	2013	2012
Stock based compensation expense recognized	\$ 237,000	\$ 290,000
Number of unvested stock options	893,563	795,600
Fair value of unvested stock options	\$ 1,210,840	\$ 1,426,878
Amount remaining to be recognized as expense	\$ 597,709	\$ 548,287

The remaining amount of \$597,709 will be recognized as expense through June 2017.

Earnings per Share

Earnings per share (“EPS”) consist of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents (“CSEs”). CSEs consist of dilutive stock options granted through the Company’s Plan

and convertible securities related to the trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to the net income. For the three and nine months ended September 30, 2013 and 2012, the effect of CSEs (convertible securities related to the trust preferred securities only) and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculation.

The calculation of EPS for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss) - basic and diluted	\$(2,222	) \$398	\$(219	) \$2,710
Weighted average shares outstanding	25,973	25,973	25,973	25,973
Net income (loss) per share – basic	\$(0.09	) \$0.02	\$(0.01	) \$0.10