REPUBLIC FIRST BANCORP INC
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended: **June 30, 2007**

Commission File Number: **000-17007**

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

Pennsylvania	**23-2486815**
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification Number
50 South 16th Street, Philadelphia, Pennsylvania	**19102**
(Address of principal executive offices)	(Zip code)

215-735-4422
(Registrant's telephone number, including area code)

Former Address: 1608 Walnut Street, Philadelphia, PA 19103
(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 filing requirements for the past 90 days.
YES **X** 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 **X** Non-accelerated filer ____

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latestpracticable date.

10,337,409 shares of Issuer's Common Stock, par value
$0.01 per share, issued and outstanding as of August 8, 2007

Page 1

Exhibit index appears on page 36

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

Republic First Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
As of June 30, 2007 and December 31, 2006
Dollars in thousands, except per share data

ASSETS:	**June 30, 2007**	**December 31, 2006**
Cash and due from banks	$ 14,249	$ 19,454
Interest bearing deposits with banks	353	426
Federal funds sold	57,537	63,247
Total cash and cash equivalents	72,139	83,127
Investment securities available for sale, at fair value	78,971	102,039
Investment securities held to maturity, at amortized cost (Fair value of $294 and $338, respectively)	291	333
Restricted stock, at cost	7,620	6,804
Loans receivable (net of allowance for loan losses of $7,661 and $8,058, respectively)	828,937	784,002
Premises and equipment, net	8,513	5,648
Other real estate owned, net	499	572
Accrued interest receivable	5,154	5,370
Bank owned life insurance	11,497	11,294
Other assets	10,959	9,635
Total Assets	$ 1,024,580	$ 1,008,824
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Demand – non-interest-bearing	$ 83,049	$ 78,131
Demand – interest-bearing	38,942	47,573
Money market and savings	274,946	260,246
Time less than $100,000	146,397	138,566
Time over $100,000	254,836	230,257
Total Deposits	798,170	754,773
Short-term borrowings	121,791	159,723
Accrued interest payable	7,039	5,224
Other liabilities	8,770	8,184
Subordinated debt	11,341	6,186
Total Liabilities	947,111	934,090
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, 20,000,000 shares authorized; shares issued 10,735,720 as of June 30, 2007 and 9,746,312 as of December 31, 2006	107	97
Additional paid in capital	74,896	63,342
Retained earnings	6,114	13,511
	(2,124)	(1,688)

Treasury stock at cost (320,111 and 250,555 shares, respectively)		
Stock held by deferred compensation plan	(810)	(810)
Accumulated other comprehensive income (loss)	(714)	282
Total Shareholders' Equity	77,469	74,734
Total Liabilities and Shareholders' Equity	$ 1,024,580	$ 1,008,824

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiary
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2007 and 2006
Dollars in thousands, except per share data
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	**2006**	**2007**	**2006**
Interest income:				
Interest and fees on loans	$ 15,657	$ 13,751	$ 30,957	$ 27,905
Interest and dividends on taxable investment securities	1,236	567	2,654	1,076
Interest and dividends on tax-exempt investment securities	125	-	249	-
Interest on federal funds sold and other interest-earning assets	169	252	404	652
Total interest income	17,187	14,570	34,264	29,633
Interest expense:				
Demand interest-bearing	118	92	218	214
Money market and savings	3,532	2,245	6,554	3,944
Time less than $100,000	1,861	1,322	3,681	2,471
Time over $100,000	2,789	1,280	5,240	3,574
Other borrowings	1,377	1,445	3,496	1,935
Total interest expense	9,677	6,384	19,189	12,138
Net interest income	7,510	8,186	15,075	17,495
Provision for loan losses	63	61	143	1,374
Net interest income after provision for loan losses	7,447	8,125	14,932	16,121
Non-interest income:				
Loan advisory and servicing fees	347	317	559	828
Service fees on deposit accounts	280	405	582	858
Gain on sale of other real estate owned	2	-	2	-
Bank owned life insurance	102	90	203	177
Other income	24	32	49	96
	755	844	1,395	1,959
Non-interest expenses:				
Salaries and employee benefits	2,545	2,931	5,161	5,855
Occupancy	604	430	1,141	865
Depreciation and amortization	355	208	689	408
Legal	195	138	272	305
Other real estate	17	2	20	3
Advertising	159	139	244	188
Data processing	155	108	314	238
Insurance	94	84	187	165
Professional fees	124	146	250	266
Taxes, other	211	176	414	391
Other expenses	824	760	1,586	1,479
	5,283	5,122	10,278	10,163

Income before provision for income taxes		2,919		3,847		6,049		7,917
Provision for income taxes		951		1,320		1,977		2,719
Net income	$	1,968	$	2,527	$	4,072	$	5,198
Net income per share (1):								
Basic	$	0.19	$	0.24	$	0.39	$	0.50
Diluted	$	0.18	$	0.24	$	0.38	$	0.49

(1) 2006 amounts adjusted for 10% stock dividend paid on April 17, 2007

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2007 and 2006
Dollars in thousands
(unaudited)

	Six months ended June 30, 2007	2006
Cash flows from operating activities:		
Net income	$ 4,072	$ 5,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	143	1,374
Gain on sale of other real estate owned	(2)	-
Depreciation and amortization	689	408
Stock based compensation	59	5
Amortization of (discounts) premiums on investment securities	(72)	106
Increase in value of bank owned life insurance	(203)	(177)
(Increase) decrease in accrued interest receivable and other assets	(595)	244
Increase (decrease) in accrued interest payable and other liabilities	2,401	(87)
Net cash provided by operating activities	6,492	7,071
Cash flows from investing activities:		
Purchase of securities:		
Available for sale	(886)	(2,985)
Proceeds from maturities and calls of securities:		
Held to maturity	42	-
Available for sale	22,517	1,219
Purchase of restricted stock	(816)	-
Proceeds from sale of restricted stock	-	328
Net increase in loans	(45,078)	(63,726)
Net proceeds from sale of other real estate owned	75	-
Premises and equipment expenditures	(3,554)	(2,180)
Net cash used in investing activities	(27,700)	(67,344)
Cash flows from financing activities:		
Net proceeds from exercise of stock options	36	677
Purchase of treasury shares	(436)	-
Net increase (decrease) in demand, money market and savings deposits	10,987	(1,574)
(Repayment) increase of short term borrowings	(37,932)	8,390
Issuance of subordinated debt	5,155	-
Net increase (decrease) in time deposits	32,410	(1,528)
Net cash provided by financing activities	10,220	5,965
Decrease in cash and cash equivalents	(10,988)	(54,308)
Cash and cash equivalents, beginning of period	83,127	106,974
Cash and cash equivalents, end of period	$ 72,139	$ 52,666
Supplemental disclosure:		
Interest paid	$ 17,374	$ 10,818
Taxes paid	$ 2,150	$ 3,100

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2007 and 2006
Dollars in thousands
(unaudited)

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock, at Cost	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2007		$ 97	$ 63,342	$ 13,511	$ (1,688)	$ (810)	$ 282	$ 74,734
Total other comprehensive loss, net of taxes of $(513)	(996)	–	–	–	–	–	(996)	(996)
Net income	4,072	–	–	4,072	–	–	–	4,072
Total comprehensive income	$ 3,076							
Stock based compensation		–	59	–	–	–	–	59
Stock dividend (974,441 shares)		10	11,459	(11,469)	–	–	–	–
Options exercised (15,067 shares)		–	36	–	–	–	–	36
Purchase of treasury shares (44,500 shares)		–	–	–	(436)	–	–	(436)
Balance June 30, 2007		$ 107	$ 74,896	$ 6,114	$ (2,124)	$ (810)	$ (714)	$ 77,469

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock, at Cost	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2006		$ 88	$ 50,203	$ 15,566	$ (1,688)	$ (573)	$ 81	$ 63,677
Total other comprehensive loss, net of taxes of ($97)	(188)	–	–	–	–	–	(188)	(188)

Net income	5,198	–	–	5,198	–	–	–	5,198
Total comprehensive income	$ 5,010							
Stock based compensation		–	5	–	–	–	–	5
Stock dividend declared (885,279 shares)		8	12,165	(12,173)				–
Options exercised (113,640 shares)		1	676	–	–	–	–	677
Balance June 30, 2006		$ 97	$ 63,049	$ 8,591	$ (1,688)	$ (573)	$ (107)	$ 69,369

(See notes to consolidated financial statements)

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Organization

Republic First Bancorp, Inc. ("the Company") is a one-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. It is comprised of one wholly owned subsidiary, Republic First Bank ("Republic"), a Pennsylvania state chartered bank. Republic offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia and South Jersey area through its offices and branches in Philadelphia, Montgomery, Delaware, and Camden counties.

Both Republic and First Bank of Delaware ("FBD"), a former subsidiary, share data processing, accounting, human resources and compliance services through BSC Services Corp. ("BSC"), which is a subsidiary of FBD. BSC allocates its cost on the basis of usage, to Republic and FBD, which classify such costs to the appropriate non-interest expense categories.

The Company and Republic encounter vigorous competition for market share in the geographic areas they serve from bank holding companies, other community banks, thrift institutions 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 its subsidiary for adherence to laws and regulations. As a consequence, the cost of doing business may be affected.

Note 2: Summary of Significant Accounting Policies:

Basis of Presentation:

The consolidated financial statements include the accounts of the Company and Republic. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. 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 six month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

Risks and Uncertainties and Certain Significant Estimates:

The earnings of the Company depend on the earnings of Republic. Earnings 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 results of operations are subject to risks and uncertainties surrounding their exposure to change 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, other than temporary impairment of investment securities and the realization of deferred 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. Since these estimates are dependent, to a great extent, on the general economy and other conditions that may be beyond Republic's control, it is at least reasonably possible that the estimates could differ materially in the near term. In estimating the carrying values of other real estate owned, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fait value, less the cost to sell. In estimating other than temporary impairment 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 and the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for 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 prospects 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 our ability to recover deferred tax assets, management considers all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

The Company and Republic are subject to federal and state regulations governing virtually all aspects of their activities, including but not limited to, lines of business, liquidity, investments, the payment of dividends, and others. Such regulations and the cost of adherence to such regulations can have a significant impact on earnings and financial condition.

Share-Based Compensation:

At June 30, 2007, the Company maintains a Stock Option Plan (the "Plan") under which the Company grants options to its employees and directors. Under 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 reserved for such options. The Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of grant. Any options granted vest within one to five years and have a

9

maximum term of 10 years. The Black-Sholes option pricing model is utilized to determine the fair market value of stock options. In 2007 the following assumptions were utilized; a cash dividend yield of 0%; expected volatility of 25.24%; a risk-free interest rate of 4.70% and an expected life of 7.0 years. A dividend yield of 0% is utilized, because cash dividends have never been paid. The expected life reflects a 3 to 4 year "all or nothing" vesting period, the maximum ten year term and review of historical behavior. The volatility was based on Bloomberg's seven year volatility calculation for "FRBK" stock. The risk-free interest rate is based on the seven year Treasury bond. No shares vested in the first six months of 2007, but expense is recognized ratably over the period required to vest. There were 12,100 unvested options at January 1, 2007 with a fair value of $61,710 with $46,282 of that amount remaining to be recognized as expense. At June 30, 2007, there were 105,050 unvested options with a fair value of $486,885 with $412,591 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 739,332 options outstanding was $2,373,256, while the intrinsic value of the 634,282 exercisable (vested) was $2,600,556. During the first six months of 2007, 6,050 options were forfeited, with a weighted average grant fair value of $30,855.

A summary of the status of the Company's stock options under the Stock Option Plan as of June 30, 2007 and 2006 and changes during the six months ended June 30, 2007 and 2006 are presented below:

	For the Six Months Ended June 30,			
	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	661,449	$ 5.55	780,309	$ 5.43
Granted	99,000	11.77	12,100	12.14
Exercised	(15,067)	(2.42)	(125,004)	(5.43)
Forfeited	(6,050)	(12.14)	-	-
Outstanding, end of period	739,332	6.39	667,405	5.55
Options exercisable at period-end	634,282	5.50	655,305	5.43
Weighted average fair value of options granted during the period		$ 4.61		$ 5.10

	For the Six Months Ended June 30,	
	2007	2006
Number of options exercised	15,067	125,004
Cash received	$ 36,413	$ 677,118
Intrinsic value	115,589	855,103
Tax benefit	40,456	299,286

The following table summarizes information about options outstanding under the Stock Option Plan as of June 30, 2007.

	Options outstanding			Options exercisable	
Range of Exercise Prices	Shares	Weighted Average remaining contractual life (years)	Weighted Average exercise price	Shares	Weighted Average Exercise Price
$1.81	106,586	3.5	$ 1.81	106,586	$ 1.81
$2.72 to $3.55	170,687	4.7	2.94	170,687	2.94
$3.76 to $4.62	27,275	4.3	4.00	27,275	4.00
$6.03 to $6.74	169,942	6.6	6.23	169,942	6.23
$9.94 to $12.14	264,842	8.5	10.81	159,792	10.16
	739,332		$ 6.39	634,282	$5.50

	For the Six Months Ended, June 30, 2007	
	Number of shares	Weighted average grant date fair value
Nonvested at beginning of year	12,100	$ 5.10
Granted	99,000	4.61
Vested	-	-
Forfeited	(6,050)	(5.10)
Nonvested at end of period	105,050	$ 4.64

During the three months ended June 30, 2007, $33,000 was recognized in compensation expense, with a 35% assumed tax benefit for the Stock Option Plan. During the six months ended June 30, 2007, $59,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the three months and six months ended June 30, 2006, $5,000 was recognized in compensation expense for the Stock Option Plan.

Note 3: Reclassifications and Restatement for 10% Stock Dividend

Certain items in the consolidated financial statements and accompanying notes have been reclassified to conform to the current year's presentation format. There was no effect on net income for the periods presented herein as a result of reclassifications. All applicable amounts in these consolidated financial statements (including stock options and share information) have been restated for a 10% stock dividend paid on April 17, 2007.

Note 4: Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. This statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement resolves issues addressed in Statement 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial

Interest in Securitized Financial Assets. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company adopted this guidance on January 1, 2007. The adoption did not have any effect on the Company's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Asset- An Amendment of FASB Statement No. 140. This statement amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. It also permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. The Company adopted this statement effective January 1, 2007. The adoption did not have a material effect on the Company's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The adoption did not have any impact on the Company's financial position or results of operations.

In September 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") in Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 applies to life insurance arrangements that provide an employee with a specified benefit that is not limited to the employee's active service period, including certain bank-owned life insurance ("BOLI") policies. EITF 06-4 requires an employer to recognize a liability and related compensation costs for future benefits that extend to postretirement periods. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, with earlier application permitted. The Company is continuing to evaluate the impact of this consensus, which may require the Company to recognize an additional liability and compensation expense related to its deferred compensation agreements.

In September 2006, the FASB ratified the consensus reached by the EITF in Issue 06-5, Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance. Technical Bulletin No. 85-4 states that an entity should report as an asset in the statement of financial position the amount that could be realized under the insurance contract. EITF 06-5 clarifies certain factors that should be considered in the determination of the amount that could be realized. EITF 06-5 is effective for fiscal years beginning after December 15, 2006, with earlier application permitted under certain circumstances. The Company adopted this guidance on January 1, 2007. The adoption did not have any effect on the Company's financial position or results of operations.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company is currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position or results of operations.

In September 2006, the SEC issued SAB No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB No. 108, companies might evaluate the materiality of financial-statement misstatements using either the

income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB No. 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. The Company adopted this guidance on January 1, 2007. The adoption did not have any effect on the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No.157. The Company is currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 159 on our consolidated financial position or results of operations.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company is currently assessing the impact of EITF 06-10 on its consolidated financial position and results of operations.

In March 2007, the FASB ratified EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for nonvested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. The Company does not expect EITF 06-11 will have a material impact on its financial position, results of operations or cash flows.

Note 5: Legal Proceedings

The Company and Republic are from time to time parties (plaintiff or defendant) to lawsuits in the normal course of business. While any litigation involves an element of uncertainty, management, after reviewing pending actions with legal counsel, is of the opinion that the liabilities of the Company and Republic, if any, resulting from such actions will not have a material effect on the financial condition or results of operations of the Company.

Note 6: Segment Reporting

The Company has one reportable segment: community banking. The community bank segment primarily encompasses the commercial loan and deposit activities of Republic, as well as consumer loan products in the area surrounding its branches.

Note 7: Earnings Per Share:

Earnings per share ("EPS") consists 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 stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. CSEs which are anti-dilutive are not included in the following calculation. At June 30, 2007, there were 130,460 stock options to purchase common stock, which were excluded from the computation of earnings per share because the option price was greater than the average market price. No stock options were anti-dilutive at June 30, 2006. The following tables are a comparison of EPS for the three months ended June 30, 2007 and 2006. EPS has been restated for a stock dividend paid on April 17, 2007 (See Note 3).

Three months ended June 30,	**2007**		**2006**	
Net Income	$ 1,968,000		$ 2,527,000	
	Shares	**Per Share**	**Shares**	**Per Share**
Weighted average shares for period	10,448,394		10,440,493	
Basic EPS		$ 0.19		$ 0.24
Add common stock equivalents representing dilutive stock options	289,924		284,750	
Effect on basic EPS of dilutive CSE		$ (0.01)		$ -
Equals total weighted average shares and CSE (diluted)	10,738,318		10,725,243	
Diluted EPS		$ 0.18		$ 0.24

The following tables are a comparison of EPS for the six months ended June 30, 2007 and 2006. EPS has been restated for a stock dividend paid on April 17, 2007 (See Note 3).

Six months ended June 30,	**2007**		**2006**	
Net Income	$ 4,072,000		$ 5,198,000	
	Shares	**Per Share**	**Shares**	**Per Share**
Weighted average shares for period	10,447,236		10,385,301	
Basic EPS		$ 0.39		$ 0.50
Add common stock equivalents representing dilutive stock options	301,692		279,852	
Effect on basic EPS of dilutive CSE		$ (0.01)		$ (0.01)
Equals total weighted average shares and CSE (diluted)	10,748,928		10,665,153	
Diluted EPS		$ 0.38		$ 0.49

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of significant changes in the Company's results of operations, financial condition and capital resources presented in the accompanying consolidated financial statements. This discussion should be read in conjunction with the accompanying notes to the consolidated financial statements.

Certain statements in this document may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "may," "believes," "expect," "estimate," "project," "anticipate," "should," "intend," "probability," "risk," "target," "objective" and similar e variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; new service and product offerings by competitors and price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the year ended December 31, 2006, Quarterly Reports on Form 10-Q, filed by the Company in 2007 and 2006, and any Current Reports on Form 8-K filed by the Company, as well as other filings.

Financial Condition:

June 30, 2007 Compared to December 31, 2006

Assets increased $15.6 million to $1.03 billion at June 30, 2007, versus $1.01 billion at December 31, 2006. This increase reflected a $44.9 million increase in net loans partially offset by a $23.1 million decrease in investment securities and an $11.0 million decrease in cash and cash equivalents.

Loans:

The loan portfolio represents the Company's largest asset category and is its most significant source of interest income. The Company's lending strategy focuses on small and medium size businesses and professionals that seek highly personalized banking services. Net loans increased $44.9 million, to $828.9 million at June 30, 2007, versus $784.0 million at December 31, 2006. Substantially all of the increase resulted from commercial and construction loans. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Commercial loans typically range between $250,000 and $5,000,000 but customers may borrow significantly larger amounts up to the legal lending limit of approximately $13.3 million at June 30, 2007. Individual customers may have several loans that are secured by different collateral, which were in total subject to that lending limit.

Investment Securities:

Investment securities available-for-sale are investments which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. The Company's investment securities available-for-sale consist primarily of U.S. Government debt securities, U.S. Government agency issued mortgage-backed securities, municipal securities, and debt securities which include corporate bonds and trust preferred securities. Available-for-sale securities totaled $79.0 million at June 30, 2007, compared to $102.0 million at year-end 2006. The decrease reflected principal payments on U.S. government agency and mortgage backed securities. At June 30, 2007 and December 31, 2006, the portfolio had net unrealized losses of $1.1 million and net unrealized gains of $427,000, respectively.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of debt securities and stocks. At June 30, 2007, securities held to maturity totaled $291,000, compared to $333,000 at year-end 2006.

Restricted Stock:

Republic is required to maintain FHLB stock in proportion to its outstanding debt to FHLB. When the debt is repaid, the purchase price of the stock is refunded. At June 30, 2007, FHLB stock totaled $7.5 million, an increase of $816,000 from $6.7 million at December 31, 2006.

Republic is also required to maintain ACBB stock as a condition of a rarely used contingency line of credit. At June 30, 2007 and December 31, 2006, ACBB stock totaled $143,000.

Cash and Cash Equivalents:

Cash and due from banks, interest bearing deposits and federal funds sold comprise this category which consists of the Company's most liquid assets. The aggregate amount in these three categories decreased by $11.0 million, to $72.1 million at June 30, 2007, from $83.1 million at December 31, 2006, primarily reflecting decreases in federal funds sold and cash and due from banks.

Fixed Assets:

The balance in premises and equipment, net of accumulated depreciation, was $8.5 million at June 30, 2007, compared to $5.6 million at December 31, 2006, reflecting primarily main office relocation expenditures.

Other Real Estate Owned:

Other real estate owned amounted to $499,000 at June 30, 2007 compared to $572,000 at December 31, 2006, as a result of a sale of a parcel of land in second quarter 2007.

Bank Owned Life Insurance:

The balance of bank owned life insurance amounted to $11.5 million at June 30, 2007 and $11.3 million at December 31, 2006. The income earned on these policies is reflected in non-interest income.

Other Assets:

Other assets increased by $1.3 million to $11.0 million at June 30, 2007, from $9.6 million at December 31, 2006, principally resulting from increases in the deferred tax asset related to market value changes in investment securities, prepaid taxes and prepaid insurance.

Deposits:

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits including some brokered deposits, are the Company's major source of funding. Deposits are generally solicited from the Company's market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships. Total deposits increased by $43.4 million to $798.2 million at June 30, 2007 from $754.8 million at December 31, 2006. Average transaction account balances increased 12.8% or $48.3 million more than the prior year period to $425.1 million in the second quarter of 2007. Period end time deposits increased $32.4 million, or 8.8% to $401.2 million at June 30, 2007, versus $368.8 million at the prior year-end. In addition, period end transaction deposits increased $11.0 million, or 2.8% to $396.9 million at June 30, 2007 versus $386.0 million at December 31, 2006.

FHLB Borrowings and Overnight Advances:

FHLB borrowings and overnight advances are utilized as additional funding sources. The Company had no term borrowings at June 30, 2007 and December 31, 2006. The Company had short-term borrowings (overnight) of $121.8 million at June 30, 2007 versus $159.7 million at the prior year-end.

Subordinated debt:

Subordinated debt amounted to $11.3 million at June 30, 2007, compared to $6.2 million at December 31, 2006, as a result of a $5.2 million issuance of trust preferred securities in June 2007 at a rate of LIBOR plus 1.55%.

Shareholders' Equity:

Total shareholders' equity increased $2.7 million to $77.5 million at June 30, 2007, versus $74.7 million at December 31, 2006. This increase was primarily the result of year-to-date net income of $4.1 million and first quarter other comprehensive income of $58,000, partially offset by a second quarter other comprehensive loss of $1.1 million and $436,000 in stock repurchases.

<u>Three Months Ended June 30, 2007 compared to June 30, 2006</u>
Results of Operations:

Overview

The Company's net income decreased to $2.0 million or $0.18 per diluted share for the three months ended June 30, 2007, compared to $2.5 million, or $0.24 per diluted share for the comparable prior year period. There was a $2.6 million, or 18.0%, increase in total interest income, reflecting a 17.3% increase in average loans outstanding and a 125.7% increase in average investment securities while interest expense increased $3.3 million, reflecting a 32.3% increase in average interest-bearing deposits outstanding and higher rates thereon. Accordingly, net interest income decreased $676,000 between the periods. Contributing to the $676,000 decrease in net interest income was the impact of $356,000 in interest income reductions due to the increase in non-performing loans in the second quarter of 2007 and the impact of $181,000 in net interest income related to tax refund loans in 2006 which was not earned in the second quarter of 2007 due to the discontinuation of the program. The provision for loan losses in the second quarter of 2007 increased to $63,000, compared to $61,000 provision expense in the second quarter of 2006. Non-interest income decreased $89,000 to $755,000 in second quarter 2007 compared to $844,000 in second quarter 2006 due to a decrease in fees on deposit accounts. Non-interest expenses increased $161,000 to $5.3 million compared to $5.1 million in the second quarter of 2006 relecting the impact of two new branches. Return on average assets and average equity of 0.81% and 10.18% respectively, in the second quarter of 2007 compared to 1.27% and 14.87% respectively for the same period in 2006.

Analysis of Net Interest Income

Historically, the Company's earnings have depended significantly upon net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is impacted by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. Yields are adjusted for tax equivalency for tax exempt municipal securities income in second quarter 2007. Republic had no tax exempt income on securities in second quarter 2006.

	For the three months ended June 30, 2007	For the three months ended June 30, 2006
Interest-earning assets:		
	Interest	Interest
(Dollars in thousands)		