REPUBLIC FIRST BANCORP INC
Form 10-Q
November 07, 2012

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended September 30, 2012.

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.)
50 South 16th Street, Philadelphia, Pennsylvania (Address of principal executive offices)	19102 (Zip code)

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 [X] 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 [X] 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 [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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 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 06, 2012

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2012 and December 31, 2011
(Dollars in thousands, except per share data)
(unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$7,750	$13,221
Interest bearing deposits with banks	90,108	217,734
Cash and cash equivalents	97,858	230,955
Investment securities available for sale, at fair value	192,529	174,323
Investment securities held to maturity, at amortized cost (fair value of $69 and $144, respectively)	66	140
Restricted stock, at cost	4,369	5,321
Loans held for sale	1,089	925
Loans receivable (net of allowance for loan losses of $9,798 and $12,050, respectively)	613,380	577,442
Premises and equipment, net	22,415	23,507
Other real estate owned, net	7,312	6,479
Accrued interest receivable	3,149	3,003
Bank owned life insurance	10,472	10,417
Other assets	14,351	14,841
Total Assets	$966,990	$1,047,353
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand – non-interest bearing	$145,493	$226,287
Demand – interest bearing	173,010	109,242
Money market and savings	417,506	400,141
Time Deposits	132,184	216,941
Total Deposits	868,193	952,611
Accrued interest payable	646	1,049
Other liabilities	6,731	6,366
Subordinated debt	22,476	22,476
Total Liabilities	898,046	982,502
Shareholders' Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued as of September 30, 2012 and December 31, 2011	-	-
Common stock, par value $0.01 per share: 50,000,000 shares authorized; shares issued 26,501,742 as of September 30, 2012 and December 31, 2011	265	265
Additional paid in capital	106,673	106,383
Accumulated deficit	(35,132)	(37,842)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)
Stock held by deferred compensation plan	(809)	(809)

Accumulated other comprehensive income (loss)	1,046	(47)
Total Shareholders' Equity	68,944	64,851
Total Liabilities and Shareholders' Equity	$966,990	$1,047,353

(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, 2012 and 2011
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest income:				
Interest and fees on taxable loans	$8,131	$8,408	$24,265	$24,857
Interest and fees on tax-exempt loans	63	78	198	227
Interest and dividends on taxable investment securities	1,246	1,092	3,784	3,210
Interest and dividends on tax-exempt investment securities	118	114	351	341
Interest on federal funds sold and other interest-earning assets	54	34	239	82
Total interest income	9,612	9,726	28,837	28,717
Interest expense:				
Demand- interest bearing	211	159	567	425
Money market and savings	572	868	2,157	2,527
Time deposits	370	781	1,384	2,327
Other borrowings	283	279	852	853
Total interest expense	1,436	2,087	4,960	6,132
Net interest income	8,176	7,639	23,877	22,585
Provision for loan losses	850	616	600	5,666
Net interest income after provision for loan losses	7,326	7,023	23,277	16,919
Non-interest income:				
Loan advisory and servicing fees	333	137	873	293
Gain on sales of SBA loans	1,141	1,983	3,337	4,337
Service fees on deposit accounts	234	216	670	586
Legal settlements	50	750	155	750
Gain on sale of investment securities	-	640	774	640
Other-than-temporary impairment losses	-	(45)	(33)	(49)
Portion recognized in other comprehensive income (before taxes)	-	5	2	7
Net impairment loss on investment securities	-	(40)	(31)	(42)
Bank owned life insurance income	20	40	55	106
Other non-interest income	53	229	143	488
Total non-interest income	1,831	3,955	5,976	7,158
Non-interest expense:				
Salaries and employee benefits	4,008	4,135	12,105	11,280
Occupancy	875	850	2,591	2,494
Depreciation and amortization	492	527	1,516	1,588
Legal	547	400	2,334	1,274
Other real estate owned	287	315	489	1,739
Advertising	57	70	207	260
Data processing	288	347	863	865
Insurance	183	200	493	637
Professional fees	326	383	917	1,271

Regulatory assessments and costs	343	507	1,032	1,550
Taxes, other	181	261	718	706
Other operating expenses	1,200	1,110	3,368	3,444
Total non-interest expense	8,787	9,105	26,633	27,108
Income (loss) before provision (benefit) for income taxes	370	1,873	2,620	(3,031)
Provision (benefit) for income taxes	(28)	509	(90)	(1,407)
Net income (loss)	$398	$1,364	$2,710	$(1,624)
Net income (loss) per share:				
Basic	$0.02	$0.05	$0.10	$(0.06)
Diluted	$0.02	$0.05	$0.10	$(0.06)

(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, 2012 and 2011
(Dollars in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$398	$1,364	$2,710	$(1,624)
Other comprehensive income (loss), net of tax				
Unrealized gain on securities (pre-tax $1,854, $125, $2,459, and $2,993, respectively)	1,188	80	1,576	1,918
Reclassification adjustment for securities gains (pre-tax $-, $640, $774, and $640, respectively)	-	(416)	(503)	(416)
Reclassification adjustment for impairment charge (pre-tax $-, $40, $31, and $42, respectively)	-	26	20	27
Total other comprehensive income (loss)	1,188	(310)	1,093	1,529
Total comprehensive income (loss)	$1,586	$1,054	$3,803	$(95)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2012 and 2011
(Dollars in thousands)
(unaudited)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$2,710	$(1,624)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	600	5,666
Loss on sale of other real estate owned	10	-
Writedown of other real estate owned	130	1,252
Depreciation and amortization	1,516	1,588
Stock based compensation	290	253
Gain on sale of investment securities	(774)	(640)
Impairment charges on investment securities	31	42
Amortization of premiums/(discounts) on investment securities	269	45
Proceeds from sales of SBA loans	35,358	47,046
SBA loans originated for sale	(32,185)	(44,099)
Gains on sales of SBA loans originated for sale	(3,337)	(4,337)
Increase in value of bank owned life insurance	(55)	(106)
Increase in accrued interest receivable and other assets	(249)	(831)
(Decrease) increase in accrued interest payable and other liabilities	(38)	987
Net cash provided by operating activities	4,276	5,242
Cash flows from investing activities:		
Purchase of investment securities available for sale	(60,910)	(55,466)
Proceeds from the sale of securities available for sale	22,590	34,277
Proceeds from the maturity or call of securities available for sale	22,274	13,292
Proceeds from the maturity or call of securities held to maturity	74	8
Proceeds from redemption of FHLB stock	952	907
Net increase in loans	(37,845)	(19,024)
Net proceeds from sale of other real estate owned	334	1,010
Premises and equipment expenditures	(424)	(464)
Net cash used in investing activities	(52,955)	(25,460)
Cash flows from financing activities:		
Net increase in demand, money market and savings deposits	339	71,293
Net (decrease) increase in time deposits	(84,757)	4,266
Net cash (used in) provided by financing activities	(84,418)	75,559
Net (decrease) increase in cash and cash equivalents	(133,097)	55,341
Cash and cash equivalents, beginning of year	230,955	35,865
Cash and cash equivalents, end of period	$97,858	$91,206

Supplemental disclosures:		
Interest paid	$5,363	$5,847
Non-cash transfers from loans to other real estate owned	$1,307	$1,013

(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, 2012 and 2011
(Dollars in thousands)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance January 1, 2012	$265	$106,383	$ (37,842)	$(3,099)	$ (809)	$ (47)	$ 64,851
Total comprehensive income			2,710			1,093	3,803
Stock based compensation		290					290
Balance September 30, 2012	$265	$106,673	$ (35,132)	$(3,099)	$ (809)	$ 1,046	$ 68,944
Balance January 1, 2011	$265	$106,024	$ (13,140)	$(3,099)	$ (809)	$ (1,095)	$ 88,146
Total comprehensive income (loss)			(1,624)			1,529	(95)
Stock based compensation		253					253
Balance September 30, 2011	$265	$106,277	$ (14,764)	$(3,099)	$ (809)	$ 434	$ 88,304

(See notes to consolidated financial statements)

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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, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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.

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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, impairment of restricted stock 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. 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 estimating impairment of restricted stock, management's determination of whether these investments are impaired is based on the assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost is influenced by criteria such as (1) the significance of the decline in net assets of the Federal Home Loan Bank of Pittsburgh ("FHLB") and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and accordingly, on the customer base of the FHLB.

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 uncertain nature of the current economic environment, the Company has decided to currently exclude future taxable income from its analysis on 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.

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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, 2012, 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 2012 and 2011 are as follows:

	2012	2011
Dividend yield(1)	0.0%	0.0%
Expected volatility(2)	53.12% to 54.49%	49.11%
Risk-free interest rate(3)	1.01% to 1.61%	2.84%
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 "all or nothing" vesting period, the maximum ten year term and review of historical behavior.

During the nine months ended September 30, 2012 and 2011, 61,000 shares and 53,500 shares vested, respectively. Expense is recognized ratably over the period required to vest. At September 30, 2012, the intrinsic value of the 964,530 options outstanding was $59,888, while the intrinsic value of the 168,930 exercisable (vested) options was $0.

Information regarding stock based compensation at and for the periods ended September 30, 2012 and 2011 is set forth below:

	2012	2011
Stock based compensation expense recognized	$ 290,000	$ 253,000
Number of unvested stock options	795,600	550,350
Fair value of unvested stock options	$ 1,426,878	$1,231,597
Amount remaining to be recognized as expense	$ 548,287	$ 554,517

The remaining amount of $548,287 will be recognized as expense through August 2016.

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 (loss) by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income (loss) 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, 2012 and 2011, the effect of CSEs 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, 2012 and 2011 is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	$398	$1,364	$2,710	$(1,624)
Weighted average shares outstanding	25,973	25,973	25,973	25,973
Net income (loss) per share – basic and diluted	$0.02	$0.05	$0.10	$(0.06)

Recent Accounting Pronouncements

ASU 2011-12

In December 2011, the FASB issued Accounting Standards Update ("ASU") 2011-12, Deferral of the Effective Date to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05. In response to stakeholder concerns regarding the operational ramifications of the presentation of these reclassifications for current and previous years, the FASB deferred the implementation date of this provision to allow time for further consideration. The requirement in ASU 2011-05, Presentation of Comprehensive Income, for the presentation of a combined statement of comprehensive income or separate, but consecutive, statements of net income and other comprehensive income is still effective for fiscal years and interim periods beginning after December 15, 2011 for public companies, and fiscal years ending after December 15, 2011 for nonpublic companies. The adoption of this guidance did not have a material effect on its consolidated financial statements.

ASU 2011-05

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which amends FASB ASC Topic 220, Comprehensive Income. The FASB has issued this ASU to facilitate the continued alignment of U.S. GAAP with International Accounting Standards.

The Update prohibits the presentation of the components of comprehensive income in the statement of stockholders' equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate statements of net income and other comprehensive income. Under previous GAAP, all three presentations were acceptable. Regardless of the presentation selected, the Company is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements.

The Update is effective for fiscal years and interim periods beginning after December 31, 2011. The adoption of this guidance did not have a material effect on its consolidated financial statements but expanded related disclosures.

ASU 2011-04

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The FASB has issued this ASU to amend ASC Topic 820, Fair Value Measurements, in order to bring U.S. GAAP for fair value measurements in line with International Accounting Standards.

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The Update clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholders' equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets.

The Update also creates an exception to Topic 820 for entities, which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The Update also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy.

Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes.

The Update is effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material effect on its consolidated financial statements but expanded disclosures surrounding fair value.

Note 3: 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 its legal counsel, is of the opinion that the liability 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 and Republic.

Note 4: 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 stores.

Note 5: Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity at September 30, 2012 and December 31, 2011 is as follows:

	At September 30, 2012			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$101,279	$2,196	$-	$103,475
Mortgage-backed securities	20,237	1,301	-	21,538
Municipal securities	11,077	919	(36)	11,960
Corporate bonds	32,245	555	(423)	32,377
Asset-backed securities	19,986	135	(191)	19,930
Trust Preferred Securities	5,950	-	(2,834)	3,116
Other securities	131	2	-	133
Total securities available for sale	$190,905	$5,108	$(3,484)	$192,529
U.S. Government agencies	$1	$-	$-	$1
Other securities	65	3	-	68
Total securities held to maturity	$66	$3	$-	$69

	At December 31, 2011			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$117,382	$2,629	$-	$120,011
Mortgage-backed securities	12,764	1,352	-	14,116
Municipal securities	10,863	494	(323)	11,034
Corporate bonds	26,881	17	(1,281)	25,617
Trust Preferred Securities	6,375	-	(2,965)	3,410
Other securities	131	4	-	135
Total securities available for sale	$174,396	$4,496	$(4,569)	$174,323
U.S. Government agencies	$2	$-	$-	$2
Other securities	138	4	-	142
Total securities held to maturity	$140	$4	$-	$144

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at September 30, 2012 is as follows:

	Available for Sale		Held to Maturity	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 1 year or less	$ 15,389	$ 15,714	$ -	$ -
After 1 year to 5 years	79,126	81,254	66	69
After 5 years to 10 years	72,070	70,075	-	-
After 10 years	24,320	25,486	-	-
Total	$ 190,905	$ 192,529	$ 66	$ 69

Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.

As of September 30, 2012 and December 31, 2011, the collateralized mortgage obligations and mortgage backed securities included in the investment securities portfolio consist solely of securities issued by U.S. government sponsored agencies. There were no private label mortgage securities held in the investment securities portfolio as of those dates. The Company did not hold any mortgage-backed securities that were rated "Alt-A" or "Subprime" as of September 30, 2012 and December 31, 2011. In addition, the Company did not hold any private issued CMO's as September 30, 2012 and December 31, 2011. As of September 30, 3012, the asset-backed securities consist solely of two Sallie Mae bonds collateralized by student loans which are guaranteed by the U.S. Department of Education. There were no asset-backed securities in the portfolio as of December 31, 2011.

In instances when a determination is made that an other-than-temporary impairment exists with respect to a debt security but the investor does not intend to sell the debt security and it is more likely than not that the investor will not be required to sell the debt security prior to its anticipated recovery, FASB Accounting Standards Codification ("ASC") 320-10, Investments – Debt and Equity Securities, requires the other-than-temporary impairment to be separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income. Impairment charges (credit losses) on trust preferred securities for the three and nine months ended September 30, 2012 amounted to $0 and $31,000 respectively. Impairment charges (credit losses) on trust preferred securities for the three and nine months ended September 30, 2011 amounted to $40,000 and $42,000, respectively.

The company realized gross gains on the sale of securities of $0 and $774,000, respectively, during the three and nine months ended September 30, 2012. The related sale proceeds amounted to $22.6 million. The tax provision applicable to these gross gains in 2012 amounted to approximately $271,000. The company realized gross gains on the sale of securities of $640,000 during the three and nine months ended September 30, 2011. The related sale proceeds amounted to $34.3 million. The tax provision applicable to these gross gains in 2011 amounted to approximately $224,000.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at September 30, 2012 and 2011 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2012	2011
Beginning Balance, January 1st	$3,925	$3,883
Additional credit-related impairment loss on securities for which another-than-temporary impairment was previously recognized	31	42
Reductions for securities paid off during the period	-	-
Reductions for securities for which the amount previously recognized in other	-	-
comprehensive income was recognized in earnings because the Company	-	-
intends to sell the security	-	-
Ending Balance, September 30,	$3,956	$3,925

The following tables show the fair value and gross unrealized losses associated with the investment portfolio, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	At September 30, 2012					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	$-	$-	$-	$-	$-	$-
Municipal securities	-	-	1,717	36	1,717	36
Corporate bonds	4,821	178	14,751	245	19,572	423
Asset-backed securities	9,405	191	-	-	9,405	191
Trust Preferred Securities	-	-	3,116	2,834	3,116	2,834
Total	$14,226	$369	$19,584	$3,115	$33,810	$3,484

	At December 31, 2011					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$-	$-	$9	$-	$9	$-
Municipal securities	-	-	4,490	323	4,490	323
Corporate bonds	18,714	1,281	-	-	18,714	1,281
Trust Preferred Securities	-	-	3,410	2,965	3,410	2,965
Total	$18,714	$1,281	$7,909	$3,288	$26,623	$4,569

The impairment of the investment portfolio totaled $3.5 million with a total fair value of $33.8 million at September 30, 2012. The most significant component of this impairment is related to the trust preferred securities held in the portfolio. Unrealized losses on the trust preferred securities amount to $2.8 million at September 30, 2012. The unrealized losses associated with the trust preferred securities are a result of the secondary market for such securities becoming inactive and are considered temporary at this time.

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The following table provides additional detail about trust preferred securities as of September 30, 2012.

(dollars in thousands)	Class / Tranche	Amortized Cost	Fair Value	Unrealized Losses	Lowest Credit Rating Assigned	Number of Banks Currently Performing	Deferrals / Defaults as % of Current Balance	Conditional Default Rates for 2013 and beyond	Cumulative OTTI Life to Date
Preferred Term Securities IV	Mezzanine Notes	$ 49	$ 40	$ (9)	CCC	5	27 %	0.40 %	$ -
Preferred Term Securities VII	Mezzanine Notes	1,658	1,114	(544)	C	8	64	0.59	2,173
TPREF Funding II	Class B Notes	742	336	(406)	C	18	39	0.37	257
TPREF Funding III	Class B2 Notes	1,521	731	(790)	C	17	39	0.44	480
Trapeza CDO I, LLC	Class C1 Notes	556	215	(341)	C	11	53	0.52	470
ALESCO Preferred Funding IV	Class B1 Notes	604	272	(332)	C	36	29	0.37	396
ALESCO Preferred Funding V	Class C1 Notes	820	408	(412)	C	39	33	0.36	180
Total		$ 5,950	$ 3,116	$ (2,834)		134	40 %		$ 3,956

At September 30, 2012, the investment portfolio included twenty-five municipal securities with a total market value of $12.0 million. These securities are reviewed quarterly for impairment. Research on each issuer is completed to ensure the financial stability of the municipal entity. The largest geographic concentration was in California where thirteen municipal securities had a market value of $6.1 million. As of September 30, 2012, management found no evidence of OTTI on any of the municipal securities held in the investment securities portfolio.

The unrealized losses on the remaining securities are due to changes in market value resulting from changes in market interest rates and are considered temporary as of September 30, 2012.

Note 6: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company’s gross loans by major categories as of September 30, 2012 and December 31, 2011:

(dollars in thousands)	September 30, 2012	December 31, 2011
Commercial real estate	$ 344,149	$ 344,377
Construction and land development	29,744	35,061
Commercial and industrial	108,665	87,668
Owner occupied real estate	117,959	102,777
Consumer and other	20,370	16,683

Residential mortgage		2,467		3,150
Total loans receivable		623,354		589,716
Deferred costs (fees)		(176)		(224)
Allowance for loan losses		(9,798)		(12,050)
Net loans receivable	$	613,380	$	577,442

A loan is considered impaired, in accordance with ASC 310, Receivables, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming loans, but also include internally classified accruing loans.

The following table summarizes information with regard to impaired loans by loan portfolio class as of September 30, 2012 and December 31, 2011:

	September 30, 2012			December 31, 2011		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial real estate	$16,200	$16,282	$-	$11,053	$11,123	$-
Construction and land development	4,842	9,825	-	6,165	12,011	-
Commercial and industrial	5,178	8,282	-	4,781	4,895	-
Owner occupied real estate	505	505	-	506	506	-
Consumer and other	914	1,141	-	958	1,196	-
Total	$27,639	$36,035	$-	$23,463	$29,731	$-
With an allowance recorded:						
Commercial real estate	$10,138	$10,138	$1,681	$9,023	$9,023	$2,066
Construction and land development	733	1,933	83	818	1,933	98
Commercial and industrial	1,992	2,114	609	3,539	6,009	629
Owner occupied real estate	3,527	3,527	872	1,356	1,356	311
Consumer and other	146	153	47	-	-	-
Total	$16,536	$17,865	$3,292	$14,736	$18,321	$3,104
Total Impaired Loans:						
Commercial real estate	$26,338	$26,420	$1,681	$20,076	$20,146	$2,066
Construction and land development	5,575	11,758	83	6,983	13,944	98
Commercial and industrial	7,170	10,396	609	8,320	10,904	629
Owner occupied real estate	4,032	4,032	872	1,862	1,862	311
Consumer and other	1,060	1,294	47	958	1,196	-
Total	$44,175	$53,900	$3,292	$38,199	$48,052	$3,104

The following table presents additional information regarding the Company's impaired loans for the three and nine months ended September 30, 2012 and September 30, 2011:

	Three Months Ended September 30,			
	2012		2011	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$15,728	$ 186	$28,726	$ 231
Construction and land development	4,878	27	18,286	45
Commercial and industrial	4,955	28	2,313	27
Owner occupied real estate	673	3	1,436	9
Consumer and other	898	4	739	-
Total	$27,132	$ 248	$51,500	$ 312
With an allowance recorded:				
Commercial real estate	$9,256	$124	$13,951	$159
Construction and land development	923	-	2,285	4
Commercial and industrial	2,480	16	3,956	5
Owner occupied real estate	3,123	48	2,066	32
Consumer and other	121	-	-	-
Total	$15,903	$188	$22,258	$200
Total Impaired Loans:				
Commercial real estate	$24,984	$310	$42,677	$390
Construction and land development	5,801	27	20,571	49
Commercial and industrial	7,435	44	6,269	32
Owner occupied real estate	3,796	51	3,502	41
Consumer and other	1,019	4	739	-
Total	$43,035	$436	$73,758	$512

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $225,000 and $503,000 for the three months ended September 30, 2012 and 2011, respectively.

	Nine Months Ended September 30,			
	2012		2011	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$14,786	$ 556	$31,140	$ 822
Construction and land development	4,946	86	17,328	144
Commercial and industrial	4,509	106	3,083	80
Owner occupied real estate	1,013	30	1,710	28
Consumer and other	866	8	709	-
Total	$26,120	$ 786	$53,970	$ 1,074
With an allowance recorded:				
Commercial real estate	$7,488	$259	$12,901	$411
Construction and land development	1,305	-	5,545	25
Commercial and industrial	3,454	35	3,784	16
Owner occupied real estate	2,315	96	2,610	96
Consumer and other	73	-	-	-
Total	$14,635	$390	$24,840	$548
Total Impaired Loans:				
Commercial real estate	$22,274	$815	$44,041	$1,233
Construction and land development	6,251	86	22,873	169
Commercial and industrial	7,963	141	6,867	96
Owner occupied real estate	3,328	126	4,320	124
Consumer and other	939	8	709	-
Total	$40,755	$1,176	$78,810	$1,622

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $545,000 and $1.6 million for the nine months ended September 30, 2012 and 2011, respectively.

The following tables provide the activity in and ending balances of the allowance for loan losses by loan portfolio class at and for the three and nine months ended September 30, 2012 and September 30, 2011:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Three months ended September 30, 2012								
Allowance for loan losses:								
Beginning balance:	$ 3,961	$ 1,416	$ 1,816	$ 1,626	$ 134	$ 16	$ 416	$ 9,385
Charge-offs	(133)	-	(303)	-	(1)	-	-	(437)
Recoveries	-	-	-	-	-	-	-	-
Provisions (credits)	794	(173)	37	335	55	2	(200)	850
Ending balance	$ 4,622	$ 1,243	$ 1,550	$ 1,961	$ 188	$ 18	$ 216	$ 9,798

Three months ended September 30, 2011