

Bancorp, Inc.
Form 10-Q
September 30, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2015

OR

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

For the transition period from: _____ to _____

Commission file number: 51018

THE BANCORP, INC.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

23-3016517
(IRS Employer
Identification No.)

409 Silverside Road
Wilmington, DE 19809
(Address of principal executive offices) (Zip code)

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

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

Yes No

Indicate by check mark whether the registrant 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 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.

(Check one):

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 Act).

Yes No

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

As of September 24, 2015 there were 37,758,237 outstanding shares of common stock, \$1.00 par value.

THE BANCORP, INC

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (in thousands)	December 31, 2014
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 13,269	\$ 8,665
Interest earning deposits at Federal Reserve Bank	936,989	1,059,320
Securities purchased under agreements to resell	40,068	46,250
Total cash and cash equivalents	990,326	1,114,235
Investment securities, available-for-sale, at fair value	1,370,027	1,493,639
Investment securities, held-to-maturity (fair value \$91,934 and \$91,914, respectively)	93,649	93,765
Commercial loans held for sale	284,501	217,080
Loans, net of deferred loan fees and costs	968,033	874,593
Allowance for loan and lease losses	(4,352)	(3,638)
Loans, net	963,681	870,955
Federal Home Loan and Atlantic Central Bankers Bank stock	1,063	1,002
Premises and equipment, net	19,271	17,697
Accrued interest receivable	11,526	11,251
Intangible assets, net	5,541	6,228
Deferred tax asset, net	35,874	33,673
Investment in unconsolidated entity, at fair value	187,186	193,595
Assets held for sale	651,158	887,929
Other assets	43,804	45,268
Total assets	\$ 4,657,607	\$ 4,986,317
LIABILITIES		
Deposits		
Demand and interest checking	\$ 3,993,393	\$ 4,289,586
Savings and money market	321,264	330,798

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Time deposits	1,400	1,400
Total deposits	4,316,057	4,621,784
Securities sold under agreements to repurchase	2,357	19,414
Subordinated debenture	13,401	13,401
Other liabilities	10,038	12,695
Total liabilities	4,341,853	4,667,294
SHAREHOLDERS' EQUITY		
Common stock - authorized, 50,000,000 shares of \$1.00 par value; 37,858,237 and 37,808,777		
shares issued at June 30, 2015 and December 31, 2014, respectively	37,858	37,809
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	298,978	297,987
Retained earnings	(27,854)	(28,242)
Accumulated other comprehensive income	7,638	12,335
Total shareholders' equity	315,754	319,023
Total liabilities and shareholders' equity	\$ 4,657,607	\$ 4,986,317

The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014 (restated)	2015	2014 (restated)
Interest income				
Loans, including fees	\$ 11,534	\$ 8,802	\$ 22,231	\$ 17,266
Interest on investment securities:				
Taxable interest	5,006	5,356	10,066	10,493
Tax-exempt interest	3,117	2,956	6,291	5,040
Federal funds sold/securities purchased under agreements to resell	158	85	322	191
Interest earning deposits	557	411	1,179	1,175
	20,372	17,610	40,089	34,165
Interest expense				
Deposits	3,215	2,695	6,314	5,472
Securities sold under agreements to repurchase	4	11	13	23
Subordinated debenture	116	113	211	228
	3,335	2,819	6,538	5,723
Net interest income	17,037	14,791	33,551	28,442
Provision for loan and lease losses	510	1,173	1,175	2,448
Net interest income after provision for loan and lease losses	16,527	13,618	32,376	25,994
Non-interest income				
Service fees on deposit accounts	1,900	1,377	3,660	2,587
Card payment and ACH processing fees	1,496	1,317	2,749	2,620
Prepaid card fees	11,128	12,898	24,260	26,366
Gain on sale of loans	5,901	5,212	7,577	10,696
Gain on sale of investment securities	193	159	273	400
Leasing income	656	1,015	1,175	1,396
Debit card income	471	456	931	882
Affinity fees	896	668	1,308	1,202
Other	2,083	287	3,568	918
Total non-interest income	24,724	23,389	45,501	47,067

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Non-interest expense				
Salaries and employee benefits	17,384	15,744	32,909	30,889
Depreciation and amortization	1,195	1,133	2,397	2,183
Rent and related occupancy cost	1,401	1,122	2,786	2,149
Data processing expense	3,760	3,463	6,988	6,718
Printing and supplies	568	589	1,183	1,145
Audit expense	773	400	1,199	776
Legal expense	648	302	2,053	932
Amortization of intangible assets	298	304	595	608
FDIC insurance	2,753	1,116	5,606	2,805
Software	1,523	1,123	2,873	2,291
Insurance	501	485	959	936
Telecom and IT network communications	412	480	962	1,001
Securitization and servicing expense	373	703	852	1,281
Consulting	732	409	2,220	1,105
Bank Secrecy Act and lookback consulting expenses	9,212	2,169	14,956	2,169
Other	4,901	4,470	8,756	8,229
Total non-interest expense	46,434	34,012	87,294	65,217
Income (loss) from continuing operations before income taxes	(5,183)	2,995	(9,417)	7,844
Income tax (benefit) provision	(2,684)	1,343	(5,111)	2,966
Net income (loss) from continuing operations	\$ (2,499)	\$ 1,652	\$ (4,306)	\$ 4,878
Discontinued operations				
Income from discontinued operations before income taxes	4,097	12,063	7,196	9,588
Income tax provision	1,424	3,393	2,502	2,517

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Income from discontinued operations, net of tax	2,673		8,670		4,694		7,071
Net income available to common shareholders	\$	174	\$	10,322	\$	388	\$ 11,949
Net income (loss) per share from continuing operations - basic	\$	(0.07)	\$	0.04	\$	(0.11)	\$ 0.13
Net income per share from discontinued operations - basic	\$	0.07	\$	0.23	\$	0.12	\$ 0.19
Net income per share - basic	\$	0.00	\$	0.27	\$	0.01	\$ 0.32
Net income (loss) per share from continuing operations - diluted	\$	(0.07)	\$	0.04	\$	(0.11)	\$ 0.13
Net income per share from discontinued operations - diluted	\$	0.07	\$	0.23	\$	0.12	\$ 0.18
Net income per share - diluted	\$	0.00	\$	0.27	\$	0.01	\$ 0.31

The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended June 30,	
	2015	2014 (restated)
	(in thousands)	
Net income		
Other comprehensive income net of reclassifications into net income:	\$ 388	\$ 11,949
Other comprehensive income		
Change in net unrealized gain during the period	(6,512)	16,863
Reclassification adjustments for losses included in income	(80)	(400)
Reclassification adjustments for foreign currency translation losses	(449)	-
Amortization of losses previously held as available-for-sale	56	11
Net unrealized gain (loss) on investment securities	(6,985)	16,474
Deferred tax expense		
Securities available-for-sale:		
Change in net unrealized gain (loss) during the period	(2,279)	5,902
Reclassification adjustments for losses included in income	(28)	(140)
Amortization of losses previously held as available-for-sale	19	4
Income tax expense (benefit) related to items of other comprehensive income	(2,288)	5,766
Other comprehensive income (loss) net of tax and reclassifications into net income	(4,697)	10,708
Comprehensive income (loss)	\$ (4,309)	\$ 22,657

The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2015

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2015	37,808,777	\$ 37,809	\$ (866)	\$ 297,987	\$ (28,242)	\$ 12,335	\$ 319,038
Net income					388		388
Common stock issued from option exercises, net of tax benefits	-	-	-	-	-	-	-
Common stock issued from option exercises, cashless exercise, net of tax benefits	-	-	-	-	-	-	-
Common stock issued as restricted shares, net of tax benefits	49,460	49		(49)	-		-
Stock-based compensation	-	-	-	1,040	-	-	1,040
Other comprehensive income net of reclassification adjustments	-	-	-	-	-	(4,697)	(4,697)

and tax

Balance at June

30, 2015	37,858,237	\$	37,858	\$	(866)	\$	298,978	\$	(27,854)	\$	7,638	\$	315,7
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The accompanying notes are an integral part of this consolidated statement.

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands except per share data)

	For the six months ended June 30,	
	2015	2014 (restated)
Operating activities		
Net income (loss) from continuing operations	\$ (4,306)	\$ 4,878
Net income from discontinued operations, net of tax	4,694	7,071
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,992	2,791
Provision for loan and lease losses	1,175	2,448
Net amortization of investment securities discounts/premiums	7,033	4,794
Stock-based compensation expense	1,040	1,443
Loans originated for sale	(265,021)	(323,926)
Sale of loans originated for resale	205,177	250,052
Gain on sales of loans originated for resale	(7,577)	(10,696)
Gain on sale of fixed assets	(10)	(2)
Gain on sales of investment securities	(273)	(400)
Increase in accrued interest receivable	(275)	(1,954)
Decrease (increase) in other assets	1,612	(3,896)
Increase in discontinued assets held for sale	(19,264)	(24,377)
Decrease in other liabilities	(2,654)	(15,702)
Net cash used in operating activities	(75,657)	(107,476)
Investing activities		
Purchase of investment securities available-for-sale	(54,565)	(343,628)
Proceeds from sale of investment securities available-for-sale	58,666	46,507
Proceeds from redemptions and prepayments of securities held-to-maturity	90	38
Proceeds from redemptions and prepayments of securities available-for-sale	106,071	109,559
Net increase in loans	(93,901)	(166,285)
Net decrease in discontinued loans held for sale	255,723	93,525
Proceeds from sale of fixed assets	166	11
Purchases of premises and equipment	(4,127)	(2,768)
Investment in unconsolidated entity	6,409	-
Net cash provided by (used in) investing activities	274,532	(263,041)

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Financing activities		
Net decrease in deposits	(305,727)	(391,179)
Net decrease in securities sold under agreements to repurchase	(17,057)	(3,740)
Proceeds from the exercise of options	-	103
Net cash used in financing activities	(322,784)	(394,816)
Net decrease in cash and cash equivalents	(123,909)	(765,333)
Cash and cash equivalents, beginning of period	1,114,235	1,235,949
Cash and cash equivalents, end of period	\$ 990,326	\$ 470,615
Supplemental disclosure:		
Interest paid	\$ 2,309	\$ 5,734
Taxes paid	\$ 177	\$ 2,093

The accompanying notes are an integral part of these consolidated statements.

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THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is The Bancorp Bank (the Bank) which is wholly owned by the Company. The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. In its continuing operations, the Bank has four primary lines of specialty lending: security backed lines of credit (SBLOC), leasing, Small Business Administration (SBA) loans and loans generated for sale into capital markets primarily through commercial mortgage backed securities (CMBS). Through the Bank, the Company also provides banking services nationally, which include prepaid cards, private label banking, institutional banking, card payment and other payment processing and health savings accounts. European operations are comprised of three operational service subsidiaries, Transact Payment Services Group Limited, Transact Payment Services Limited and Transact Payment Services Group-Bulgaria EOOD and one subsidiary, Transact Payments Limited, which offer prepaid card and electronic money issuing services.

The Company and the Bank are subject to regulation by certain state and federal agencies and, accordingly, they are examined periodically by those regulatory authorities. As a consequence of the extensive regulation of commercial banking activities, the Company's and the Bank's businesses may be affected by state and federal legislation and regulations.

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of June 30, 2015 and for the three and six month periods ended June 30, 2015 and 2014, are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (Form 10-K report). Note T in those financial statements present restated interim financial statements as described therein. The results of operations for the six month period ended June 30, 2015 may not necessarily be indicative of the results of operations for the full year ending December 31, 2014.

Note 3. Share-based Compensation

The Company recognizes compensation expense for stock options in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, Stock Based Compensation. The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is usually the vesting period. For grants subject to a service condition, the Company utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Company's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. In accordance with ASC 718, the Company estimates the number of options for which the requisite service is expected to be rendered. At June 30, 2015, the Company had three stock-based compensation plans, which are more fully described in its Annual Report on Form 10-K for the year ended December 31, 2014, and the portions of the Company's Proxy Statement for 2014, incorporated therein by reference.

The Company did not grant stock options in the first six months of 2015 or 2014. There were no stock options exercised in the first six month period ended June 30, 2015 and 63,874 common stock options exercised in the six month period ended June 30, 2014. The total intrinsic value of the options exercised during the six months ended June 30, 2015 and 2014 was \$0 and \$619,000, respectively.

The Company estimated the fair value of each grant on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	June 30,	
	2015	2014
Risk-free interest rate	-	-

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Expected dividend yield	-	-
Expected volatility	-	-
Expected lives (years)	2.0	-

Expected volatility is based on the historical volatility of the Company's stock and peer group comparisons over the expected life of the grant. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury strip rate in effect at the time of the grant. The life of the option is based on historical factors which include the contractual term, vesting period, exercise behavior and employee terminations. In accordance with ASC 718, stock based compensation expense for the six month period ended June 30, 2015 is based on awards that are ultimately expected to vest and has been reduced for estimated forfeitures. The Company estimates forfeitures using historical data based upon the groups identified by management.

A summary of the status of the Company's equity compensation plans is presented below.

	Shares (in thousands, except per share data)	Weighted average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2015	2,602,000	\$ 9.72	5.39	\$ 5,010,208
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	(232,500)	14.24	-	-
Forfeited	(20,750)	8.45	-	-
Outstanding at June 30, 2015	2,348,750	\$ 9.28	5.40	\$ 2,030,423
Exercisable at June 30, 2015	2,022,375	\$ 9.35	5.13	\$ 1,766,145

The Company granted 86,992 restricted stock units with a vesting period of two years at a fair value of \$9.11 in the first six months of 2015. There were no restricted stock units granted in the first six months of 2014. The total fair value of restricted stock units vested for the six months ended June 30, 2015 and 2014 was \$517,000 and \$886,000, respectively.

A summary of the status of the Company's restricted stock units is presented below.

	Shares	Weighted- average grant date fair value	Average remaining contractual term (years)
Outstanding at January 1, 2015	148,381	\$ 10.46	2.07
Granted	86,992	9.11	1.75
Vested	(49,460)	10.46	-
Forfeited	(11,830)	9.39	-
Outstanding at June 30, 2015	174,083		1.63

As of June 30, 2015, there was a total of \$3.3 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of 1.13 years. Related compensation expense for the six months ended June 30, 2015 and 2014 was \$1.0 million and \$1.4 million respectively.

Note 4. Earnings Per Share

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The Company calculates earnings per share under ASC 260, Earnings Per Share. Basic earnings per share exclude dilution and are computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

The following tables show the Company's earnings per share for the periods presented:

	For the three months ended June 30, 2015		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings (loss) per share from continuing operations			
Net income (loss) available to common shareholders	\$ (2,499)	37,758,249	\$ (0.07)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted income (loss) per share			
Net income (loss) available to common shareholders	\$ (2,499)	37,758,249	\$ (0.07)

	For the three months ended June 30, 2015		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except per share data)		
Basic earnings (loss) per share from discontinued operations			
Net income (loss) available to common shareholders	\$ 2,673	37,758,249	\$ 0.07
Effect of dilutive securities			
Common stock options	-	394,894	-
Diluted earnings (loss) per share			
Net income (loss) available to common shareholders	\$ 2,673	38,153,143	\$ 0.07

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For the three months ended

June 30, 2015

Income (numerator)	Shares (denominator)	Per share amount
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(dollars in thousands except per share data)

Basic earnings (loss) per share				
Net income (loss) available to common shareholders	\$	174	37,758,249	\$ 0.00
Effect of dilutive securities				
Common stock options	-		394,894	-
Diluted earnings (loss) per share				
Net income (loss) available to common shareholders	\$	174	38,153,143	\$ 0.00

Stock options for 877,000 shares, exercisable at prices between \$9.82 and \$25.43 per share, were outstanding at June 30, 2015, but were not included in the dilutive shares because the exercise price per share was greater than the average market price.

For the six months ended

June 30, 2015

Income (numerator)	Shares (denominator)	Per share amount
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(dollars in thousands except per share data)

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Basic earnings (loss) per share from continuing operations				
Net income (loss) available to common shareholders	\$	(4,306)	37,751,969	\$ (0.11)
Effect of dilutive securities				
Common stock options	-		-	-
Diluted earnings (loss) per share				
Net income available (loss) to common shareholders	\$	(4,306)	37,751,969	\$ (0.11)

For the six months ended

June 30, 2015

Income	Shares	Per share
(numerator)	(denominator)	amount

(dollars in thousands except per share data)

Basic income (loss) per share from discontinued operations				
Net income (loss) available to common shareholders	\$	4,694	37,751,969	\$ 0.12
Effect of dilutive securities				
Common stock options	-		894,248	-
Diluted income (loss) per share				
Net income (loss) available to common shareholders	\$	4,694	38,646,217	\$ 0.12

For the six months ended

June 30, 2015

Income	Shares	Per share
(numerator)	(denominator)	amount

(dollars in thousands except per share data)

Basic income(loss) per share				
Net income (loss) available to common shareholders	\$	 		