REPUBLIC FIRST BANCORP INC
Form 10-Q
August 06, 2014

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 June 30, 2014.

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 (Sec.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 issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $0.01 per share	37,815,003
Title of Class	Number of Shares Outstanding as of August 5, 2014

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2014 and December 31, 2013
(Dollars in thousands, except per share data)
(unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 17,070	$ 12,525
Interest bearing deposits with banks	66,050	23,355
Cash and cash equivalents	83,120	35,880
Investment securities available for sale, at fair value	219,634	204,891
Investment securities held to maturity, at amortized cost (fair value of $21 and $21, respectively)	21	21
Restricted stock, at cost	1,725	1,570
Loans held for sale	491	4,931
Loans receivable (net of allowance for loan losses of $12,063 and $12,263, respectively)	706,806	667,048
Premises and equipment, net	29,041	22,748
Other real estate owned, net	3,637	4,059
Accrued interest receivable	3,104	3,049
Other assets	17,555	17,468
Total Assets	$ 1,065,134	$ 961,665
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand – non-interest bearing	$ 199,553	$ 157,806
Demand – interest bearing	212,710	230,221
Money market and savings	431,612	402,671
Time deposits	80,809	78,836
Total Deposits	924,684	869,534
Accrued interest payable	292	237
Other liabilities	6,259	6,519
Subordinated debt	22,476	22,476
Total Liabilities	953,711	898,766
Shareholders' Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued	-	-
Common stock, par value $0.01 per share: 50,000,000 shares authorized; shares issued 38,343,848 as of June 30, 2014 and 26,501,742 as of December 31, 2013	383	265
Additional paid in capital	152,131	107,078
Accumulated deficit	(36,416)	(37,708)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)
Stock held by deferred compensation plan (112,542 shares)	(809)	(809)

Accumulated other comprehensive loss	(767)	(2,828)
Total Shareholders’ Equity	111,423	62,899
Total Liabilities and Shareholders’ Equity	$ 1,065,134	$ 961,665

(See notes to consolidated financial statements)

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Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2014 and 2013
(Dollars in thousands, except per share data)
(unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Interest income:				
Interest and fees on taxable loans	$ 8,226	$ 7,991	$ 16,467	$ 15,828
Interest and fees on tax-exempt loans	84	89	166	180
Interest and dividends on taxable investment securities	1,188	1,043	2,429	2,090
Interest and dividends on tax-exempt investment securities	83	48	162	121
Interest on federal funds sold and other interest-earning assets	50	44	62	103
Total interest income	9,631	9,215	19,286	18,322
Interest expense:				
Demand- interest bearing	225	207	416	402
Money market and savings	467	428	883	930
Time deposits	178	204	351	483
Other borrowings	277	278	553	556
Total interest expense	1,147	1,117	2,203	2,371
Net interest income	8,484	8,098	17,083	15,951
Provision for loan losses	300	925	300	925
Net interest income after provision for loan losses	8,184	7,173	16,783	15,026
Non-interest income:				
Loan advisory and servicing fees	466	436	903	774
Gain on sales of SBA loans	1,046	2,107	2,200	2,757
Service fees on deposit accounts	287	265	580	499
Legal settlements	-	-	-	238
Gain on sale of investment securities	458	-	458	703
Other-than-temporary impairment	21	-	21	-
Portion recognized in other comprehensive income (before taxes)	(28)	-	(28)	-
Net impairment loss on investment securities	(7)	-	(7)	-
Bank owned life insurance income	-	-	-	13
Other non-interest income	39	62	85	129
Total non-interest income	2,289	2,870	4,219	5,113
Non-interest expenses:				
Salaries and employee benefits	4,828	4,503	9,868	8,790
Occupancy	1,027	876	2,065	1,720
Depreciation and amortization	571	472	1,069	955
Legal	444	503	699	867
Other real estate owned	340	109	686	1,026
Advertising	214	117	362	218

Data processing	354	307	654	415
Insurance	122	153	279	311
Professional fees	428	359	830	682
Regulatory assessments and costs	196	241	533	585
Taxes, other	234	253	449	503
Other operating expenses	1,199	1,163	2,278	2,114
Total non-interest expense	9,957	9,056	19,772	18,186
Income before benefit for income taxes	516	987	1,230	1,953
Benefit for income taxes	(21)	(24)	(62)	(50)
Net income	$ 537	$ 1,011	$ 1,292	$ 2,003
Net income per share:				
Basic	$ 0.02	$ 0.04	$ 0.04	$ 0.08
Diluted	$ 0.02	$ 0.04	$ 0.04	$ 0.08

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
For the Three and Six Months Ended June 30, 2014 and 2013
(Dollars in thousands)
(unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income	$ 537	$ 1,011	$ 1,292	$ 2,003
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities (pre-tax $1,610, $(3,504), $3,666, and $(3,498), respectively)	1,032	(2,246)	2,350	(2,242)
Reclassification adjustment for securities gains (pre-tax $458, $-,$458, and $703, respectively)	(293)	-	(293)	(450)
Reclassification adjustment for impairment charge (pre-tax $7, $-, $7, and $-, respectively)	4	-	4	-
Total other comprehensive income (loss)	743	(2,246)	2,061	(2,692)
Total comprehensive income (loss)	$ 1,280	$ (1,235)	$ 3,353	$ (689)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2014 and 2013
(Dollars in thousands)
(unaudited)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities		
Net income	$1,292	$2,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	300	925
Gain on sale of other real estate owned	-	(229)
Write down of other real estate owned	552	809
Depreciation and amortization	1,069	955
Stock based compensation	198	155
Gain on sale and call of investment securities	(458)	(703)
Impairment charges on investment securities	7	-
Amortization of premiums on investment securities	293	380
Proceeds from sales of SBA loans originated for sale	23,370	27,410
SBA loans originated for sale	(16,730)	(24,853)
Gains on sales of SBA loans originated for sale	(2,200)	(2,757)
Increase in value of bank owned life insurance	-	(13)
Increase in accrued interest receivable and other assets	(1,295)	(416)
Decrease in accrued interest payable and other liabilities	(205)	(109)
Net cash provided by operating activities	6,193	3,557
Cash flows from investing activities		
Purchase of investment securities available for sale	(31,364)	(25,289)
Proceeds from the sale of securities available for sale	5,700	7,946
Proceeds from the maturity or call of securities available for sale	14,293	18,352
Net (purchase) redemption of restricted stock	(155)	1,490
Net increase in loans	(40,251)	(21,213)
Net proceeds from sale of other real estate owned	63	1,994
Surrender proceeds on bank owned life insurance	-	10,503
Premises and equipment expenditures	(7,362)	(211)
Net cash used in investing activities	(59,076)	(6,428)
Cash flows from financing activities		
Net proceeds from stock offering	44,973	-
Net increase (decrease) in demand, money market and savings deposits	53,177	(33,325)
Net increase (decrease) in time deposits	1,973	(35,024)
Net cash provided by (used in) financing activities	100,123	(68,349)
Net increase (decrease) in cash and cash equivalents	47,240	(71,220)
Cash and cash equivalents, beginning of year	35,880	128,004
Cash and cash equivalents, end of period	$83,120	$56,784

Supplemental disclosures:		
Interest paid	$2,148	$2,150
Income taxes paid	$70	$175
Non-cash transfers from loans to other real estate owned	$193	$246

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2014 and 2013
(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, 2014	$265	$107,078	$(37,708)	$(3,099)	$(809)	$(2,828)	$62,899
Net income			1,292				1,292
Other comprehensive income, net of tax						2,061	2,061
Proceeds from shares issued under common stock offering (11,842,106 shares) net of offering costs (pre-tax $27)	118	44,855					44,973
Stock based compensation		198					198
Balance June 30, 2014	$383	$152,131	$(36,416)	$(3,099)	$(809)	$(767)	$111,423
Balance January 1, 2013	$265	$106,753	$(34,228)	$(3,099)	$(809)	$1,020	$69,902
Net income			2,003				2,003
Other comprehensive loss, net of tax						(2,692)	(2,692)
Stock based compensation		155					155
	$265	$106,908	$(32,225)	$(3,099)	$(809)	$(1,672)	$69,368

Balance June
30, 2013

(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 six month periods ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements. The Company has evaluated subsequent events through the date of issuance of the financial data included herein.

Note 2: Summary of Significant Accounting Policies

Risks and Uncertainties

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

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

Use of Estimates

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

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

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

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

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

Stock-Based Compensation

The Company has a Stock Option and Restricted Stock Plan ("Plan"), under which the Company may grant options, restricted stock or stock appreciation rights to the Company's employees, directors, and certain consultants. The Plan became effective on November 14, 1995, and was amended and approved at the Company's 2005 annual meeting of shareholders. 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 June 30, 2014, 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. Options granted pursuant to the Plan vest within one to four years and have a maximum term of 10 years.

On April 29, 2014 the Company's shareholders approved the 2014 Equity Incentive Plan (the "2014 Plan"), under which the Company may grant options, restricted stock, stock units, or stock appreciation rights to the Company's employees, directors, independent contractors, and consultants. Under the terms of the 2014 Plan, 2.6 million shares of common stock, plus an annual adjustment to be no less than 10% of the outstanding shares or such lower number as the Board of Directors may determine, are available for such grants.

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 2014 and 2013 are as follows:

	2014	2013
Dividend yield(1)	0.0%	0.0%
Expected volatility(2)	55.79% to 57.99%	54.88% to 55.08%
Risk-free interest rate(3)	1.51% to 2.13%	1.28% to 2.02%
Expected life(4)	5.5 to 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 five and one-half to seven year volatility calculation for "FRBK" stock.
(3) The risk-free interest rate is based on the five to seven year Treasury bond.
(4) The expected life reflects a 1 to 4 year vesting period, the maximum ten year term and review of historical behavior.

During the six months ended June 30, 2014 and 2013, 198,825 options and 109,787 options vested, respectively. Expense is recognized ratably over the period required to vest. At June 30, 2014, the intrinsic value of the 1,501,149 options outstanding was $2,635,473, while the intrinsic value of the 446,136 exercisable (vested) options was $408,949. During the six months ended June 30, 2014, 68,781 options were forfeited with a weighted average grant date fair value of $21,091.

Information regarding stock based compensation for the six months ended June 30, 2014 and 2013 is set forth below:

	2014	2013
Stock based compensation expense recognized	$ 198,000	$ 155,000
Number of unvested stock options	1,055,013	911,563
Fair value of unvested stock options	$ 1,545,988	$ 1,245,470
Amount remaining to be recognized as expense	$ 910,590	$ 687,636

The remaining amount of $910,590 will be recognized as expense through February 2018.

Earnings per Share

Earnings per share (“EPS”) consist of two separate components: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents (“CSEs”). CSEs consist of dilutive stock options granted through the Company’s Plan and 2014 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 six months ended June 30, 2014 and 2013, the effect of CSEs (convertible securities related to the trust preferred securities only) and the related add back of after tax interest expense was considered anti-dilutive and therefore was not included in the EPS calculation.

The calculation of EPS for the three and six months ended June 30, 2014 and 2013 is as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (basic and diluted)	$537	$ 1,011	$1,292	$ 2,003
Weighted average shares outstanding	35,157	25,973	30,590	25,973
Net income per share – basic	$0.02	$ 0.04	$0.04	$ 0.08
Weighted average shares outstanding (including dilutive CSEs)	35,609	26,103	30,932	26,062
Net income per share – diluted	$0.02	$ 0.04	$0.04	$ 0.08

Recent Accounting Pronouncements

ASU 2014-04

In January 2014, the FASB issued ASU 2014-04, "Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure – a consensus of the FASB Emerging Issues Task Force." The guidance clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. For public business entities, the ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the ASU is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The Company does not believe the adoption of the amendment to this guidance will have a material impact on the consolidated financial statements.

ASU 2014-09

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs – Contracts with Customers (Subtopic 340-40)." The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2016. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the Company's consolidated financial statements.

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 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 June 30, 2014 and December 31, 2013 is as follows:

	At June 30, 2014			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$144,452	$1,106	$(1,835)	$143,723
Mortgage-backed securities	13,608	631	(39)	14,200
Municipal securities	11,754	241	(51)	11,944
Corporate bonds	26,905	713	-	27,618
Asset-backed securities	18,727	320	-	19,047
Trust preferred securities	5,270	-	(2,293)	2,977
Other securities	115	10	-	125
Total securities available for sale	$220,831	$3,021	$(4,218)	$219,634
U.S. Government agencies	$1	$-	$-	$1
Other securities	20	-	-	20
Total securities held to maturity	$21	$-	$-	$21

	At December 31, 2013			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$127,242	$665	$(4,467)	$123,440
Mortgage-backed securities	15,669	623	(111)	16,181
Municipal securities	9,737	68	(162)	9,643
Corporate bonds	32,174	1,079	-	33,253
Asset-backed securities	19,089	318	-	19,407
Trust preferred securities	5,277	-	(2,427)	2,850
Other securities	115	2	-	117
Total securities available for sale	$209,303	$2,755	$(7,167)	$204,891
U.S. Government agencies	$1	$-	$-	$1
Other securities	20	-	-	20
Total securities held to maturity	$21	$-	$-	$21

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The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at June 30, 2014 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	$6,216	$6,304	$-	$-
After 1 year to 5 years	99,871	99,886	21	21
After 5 years to 10 years	104,453	102,885	-	-
After 10 years	10,291	10,559	-	-
Total	$220,831	$219,634	$21	$21

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

As of June 30, 2014 and December 31, 2013, 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 June 30, 2014 and December 31, 2013. In addition, the Company did not hold any private issued CMO’s as of June 30, 2014 and December 31, 2013. As of June 30, 2014 and December 31, 2013, the asset-backed securities consisted solely of Sallie Mae bonds collateralized by student loans which are guaranteed by the U.S. Department of Education.

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, accounting standards require 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 both the three and six month periods ended June 30, 2014 amounted to $7,000. There were no impairment charges (credit losses) on trust preferred securities for the three and six months ended June 30, 2013.

The following table presents a roll-forward of the balance of credit-related impairment losses on securities held at June 30, 2014 and 2013 for which a portion of OTTI was recognized in other comprehensive income:

(dollars in thousands)	2014	2013
Beginning Balance, January 1st	$3,959	$3,959
Additional credit-related impairment loss on securities for which an other-than-temporary impairment was previously recognized	7	-
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, June 30th	$3,966	$3,959

The Company realized gross gains on the sale of securities of $458,000 during the three and six months ended June 30, 2014. The related sale proceeds amounted to $5.7 million. The tax provision applicable to these gross gains in 2014 amounted to approximately $165,000. The Company realized gross gains on the sale of securities of $703,000 during the six months ended June 30, 2013. The related sale proceeds amounted to $7.9 million. The tax provision applicable to these gross gains in 2013 amounted to approximately $253,000.

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 June 30, 2014					
	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	$16,811	$71	$50,670	$1,764	$67,481	$1,835
Mortgage-backed securities	-	-	1,106	39	1,106	39
Municipal securities	-	-	1,374	51	1,374	51
Trust preferred securities	-	-	2,977	2,293	2,977	2,293
Total	$16,811	$71	$56,127	$4,147	$72,938	$4,218

	At December 31, 2013					
	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	$73,137	$3,923	$8,697	$544	$81,834	$4,467
Mortgage-backed securities	1,450	41	1,123	70	2,573	111
Municipal Securities	5,108	162	-	-	5,108	162
Trust preferred securities	-	-	2,850	2,427	2,850	2,427
Total	$79,695	$4,126	$12,670	$3,041	$92,365	$7,167

The impairment of the investment portfolio amounted to $4.2 million on securities with a total fair value of $72.9 million at June 30, 2014. The most significant components of this impairment are related to the collateralized mortgage obligations and the trust preferred securities held in the portfolio. The unrealized losses on the CMO's are primarily related to the recent movement in market interest rates rather than the underlying credit quality of the issuers. The Company does not currently intend to sell these securities prior to their maturity or the recovery of their cost bases and does not believe it will be forced to sell these securities prior to maturity or recovering the cost bases.

At June 30, 2014, the investment portfolio included thirty collateralized mortgage obligations with a total market value of $143.7 million. Fifteen of these securities carried an unrealized loss at June 30, 2014. At June 30, 2014, the investment portfolio included forty-two mortgage-backed securities with a total market value of $14.2 million. Two of these securities carried an unrealized loss at June 30, 2014. Management found no evidence of OTTI on any of these securities and the unrealized losses are due to changes in fair value resulting from changes in market interest rates and are considered temporary as of June 30, 2014.

The unrealized losses on the trust preferred securities are primarily the result of the secondary market for such securities becoming inactive and are also considered temporary at this time.

The following table provides additional detail about trust preferred securities held in the portfolio as of June 30, 2014.

(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 2014 and beyond	Cumulative OTTI Life to Date
Preferred Term Securities IV	Mezzanine Notes	$ 49	$ 40	$ (9)	B1	6	18 %	0.34 %	$ -
Preferred Term Securities VII	Mezzanine Notes	989	768	(221)	D	11	54	0.37	2,173
TPREF Funding II	Class B Notes	732	350	(382)	C	17	41	0.39	267
TPREF Funding III	Class B2 Notes	1,520	710	(810)	C	16	34	0.29	480
Trapeza CDO I, LLC	Class C1 Notes	556	308	(248)	C	9	49	0.31	470
ALESCO Preferred Funding IV	Class B1 Notes	604	387	(217)	C	40	8	0.36	396
ALESCO Preferred Funding V	Class C1 Notes	820	414	(406)	C	41	15	0.33	180
Total		$ 5,270	2,977	$ (2,293)		140	30 %		$ 3,966

At June 30, 2014, the investment portfolio included twenty-one municipal securities with a total market value of $11.9 million. Two of these securities carried an unrealized loss at June 30, 2014. Each of the municipal securities is 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 Pennsylvania where ten municipal securities had a market value of $5.9 million. As of June 30, 2014, management found no evidence of OTTI on any of the municipal securities held in the investment securities portfolio.

Subsequent to the period ended June 30, 2014, investment securities with a fair value of $70.1 million that were previously classified as available-for-sale were transferred to the held-to-maturity category. Unrealized losses of $1.2 million associated with the transferred securities will remain in other comprehensive income and be amortized as an adjustment to yield over the remaining life of those securities.

Note 6: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major categories as of June 30, 2014, and December 31, 2013:

(dollars in thousands)	June 30, 2014	December 31, 2013
Commercial real estate	$353,458	$342,794
Construction and land development	31,224	23,977
Commercial and industrial	127,818	118,209
Owner occupied real estate	167,130	160,229
Consumer and other	37,255	31,981
Residential mortgage	2,330	2,359
Total loans receivable	719,215	679,549
Deferred costs (fees)	(346)	(238)
Allowance for loan losses	(12,063)	(12,263)
Net loans receivable	$706,806	$667,048

A loan is considered impaired, 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 June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
(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	$6,658	$6,662	$-	$6,850	$6,971	$-
Construction and land development	593	3,700	-	902	4,076	-
Commercial and industrial	3,018	6,247	-	2,043	2,882	-
Owner occupied real estate	864	1,183	-	542	862	-
Consumer and other	446	714	-	453	711	-
Total	$11,579	$18,506	$-	$10,790	$15,502	$-
With an allowance recorded:						
Commercial real estate	$13,401	$13,643	$4,045	$13,044	$13,044	$3,679
Construction and land development	669	3,908	294	716	3,867	237
Commercial and industrial	3,719	4,350	1,618	4,889	7,634	1,254
Owner occupied real estate	3,518	3,520	424	2,891	2,891	430
Consumer and other	-	-	-	203	210	10
Total	$21,307	$25,421	$6,381	$21,743	$27,646	$5,610
Total:						
Commercial real estate	$ 20,059	$ 20,305	$ 4,045	$ 19,894	$ 20,015	$ 3,679
Construction and land development	1,262	7,608	294	1,618	7,943	237
Commercial and industrial	6,737	10,597	1,618	6,932	10,516	1,254
Owner occupied real estate	4,382	4,703	424	3,433	3,753	430
Consumer and other	446	714	-	656	921	10
Total	$ 32,886	$ 43,927	$ 6,381	$ 32,533	$ 43,148	$ 5,610

The following table presents additional information regarding the Company's impaired loans for the three months ended June 30, 2014 and June 30, 2013:

	Three Months Ended June 30,			
	2014		2013	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$ 6,696	$ 106	$ 15,343	$ 202
Construction and land development	661	-	1,822	8
Commercial and industrial	2,859	-	2,953	5
Owner occupied real estate	802	(3)	180	-
Consumer and other	480	-	725	-
Total	$ 11,498	$ 103	$ 21,023	$ 215
With an allowance recorded:				
Commercial real estate	$13,325	$(130)	$7,056	$25
Construction and land development	659	-	494	-
Commercial and industrial	3,914	(1)	3,504	14
Owner occupied real estate	3,315	35	3,149	37
Consumer and other	35	-	25	-
Total	$21,248	$(96)	$14,228	$76
Total:				
Commercial real estate	$20,021	$(24)	$22,399	$227
Construction and land development	1,320	-	2,316	8
Commercial and industrial	6,773	(1)	6,457	19
Owner occupied real estate	4,117	32	3,329	37
Consumer and other	515	-	750	-
Total	$32,746	$7	$35,251	$291

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $399,000 and $130,000 for the three months ended June 30, 2014 and 2013, respectively.

The following table presents additional information regarding the Company's impaired loans for the six months ended June 30, 2014 and June 30, 2013:

	Six Months Ended June 30,			
	2014		2013	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate	$6,734	$212	$17,766	$421
Construction and land development	730	-	2,615	29
Commercial and industrial	2,699	1	2,935	11
Owner occupied real estate	740	2	216	-
Consumer and other	514	1	781	1
Total	$11,417	$216	$24,313	$462
With an allowance recorded:				
Commercial real estate	$13,249	$8	$5,885	$61
Construction and land development	650	-	395	-
Commercial and industrial	4,111	-	3,746	28
Owner occupied real estate	3,113	70	3,295	73
Consumer and other	68	-	49	-
Total	$21,191	$78	$13,370	$162
Total:				
Commercial real estate	$19,983	$220	$23,651	$482
Construction and land development	1,380	-	3,010	29
Commercial and industrial	6,810	1	6,681	39
Owner occupied real estate	3,853	72	3,511	73
Consumer and other	582	1	830	1
Total	$32,608	$294	$37,683	$624

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $542,000 and $339,000 for the six months ended June 30, 2014 and 2013, 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 six months ended June 30, 2014 and 2013:

(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 June 30, 2014								
Allowance for loan losses:								
Beginning balance:	$ 6,274	$ 861	$ 2,640	$ 1,128	$ 197	$ 13	$ 837	$ 11,950
Charge-offs	(188)	-	-	-	-	-	-	(188)
Recoveries	-	-	1	-	-	-	-	1
Provisions (credits)	690	163	150	1	23	-	(727)	300
Ending balance	$ 6,776	$ 1,024	$ 2,791	$ 1,129	$ 220	$ 13	$ 110	$ 12,063
Three months ended June 30, 2013								
Allowance for loan losses:								
Beginning balance:	$ 3,257	$ 1,835	$ 2,336	$ 1,297	$ 170	$ 14	$ 444	$ 9,353
Charge-offs	(349)	-	(361)	(319)	-	-	-	(1,029)
Recoveries	54	-	4	-	25	-	-	83
Provisions (credits)	619	667	18	8	(4)	-	(383)	925
Ending balance	$ 3,581	$ 2,502	$ 1,997	$ 986	$ 191	$ 14	$ 61	$ 9,332

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Six months ended June 30, 2014								
Allowance for loan losses:								
Beginning balance:	$ 6,454	$ 1,948	$ 2,309	$ 985	$ 225	$ 14	$ 328	$ 12,263
Charge-offs	(188)	(20)	(283)	-	(10)	-	-	(501)
Recoveries	-	-	1	-	-	-	-	1
Provisions (credits)	510	(904)	764	144	5	(1)	(218)	300
Ending balance	$ 6,776	$ 1,024	$ 2,791	$ 1,129	$ 220	$ 13	$ 110	$ 12,063

Six months ended June 30, 2013 Allowance for loan losses:								
Beginning Balance:	$3,979	$1,273	$1,880	$1,967	$234	$17	$192	$9,542
Charge-offs	(409)	(55)	(361)	(319)	(75)	-	-	(1,219)
Recoveries	54	-	5	-	25	-	-	84
Provisions (credits)	(43)	1,284	473	(662)	7	(3)	(131)	925
Ending balance	$3,581	$2,502	$1,997	$986	$191	$14	$61	$9,332

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The following tables provide a summary of the allowance for loan losses and balance of loans receivable by loan class and by impairment method as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
June 30, 2014								
Allowance for loan losses:								
Individually evaluated for impairment	$ 4,045	$ 294	$ 1,618	$ 424	$ -	$ -	$ -	$ 6,381
Collectively evaluated for impairment	2,731	730	1,173	705	220	13	110	5,682
Total allowance for loan losses	$ 6,776	$ 1,024	$ 2,791	$ 1,129	$ 220	$ 13	$ 110	$ 12,063
Loans receivable:								
Loans evaluated individually	$ 20,059	$ 1,262	$ 6,737	$ 4,382	$ 446	$ -	$ -	$ 32,886
Loans evaluated collectively	333,399	29,962	121,081	162,748	36,809	2,330	-	686,329
Total loans receivable	$ 353,458	$ 31,224	$ 127,818	$ 167,130	$ 37,255	$ 2,330	$ -	$ 719,215

(dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
December 31, 2013								
Allowance for loan losses:								
Individually evaluated for impairment	$ 3,679	$ 237	$ 1,254	$ 430	$ 10	$ -	$ -	$ 5,610
Collectively evaluated for impairment	2,775	1,711	1,055					