

REPUBLIC FIRST BANCORP INC
Form 10-Q
November 14, 2011

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

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Act of 1934
For the quarterly period ended September 30, 2011.

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	23-2486815
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

50 South 16th Street, Philadelphia, Pennsylvania	19102
(Address of principal executive offices)	(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 ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

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

Large accelerated filer ☐

Accelerated filer ☐

Non-Accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting
company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, \$0.01 per share	25,972,897
Title of Class	Number of Shares Outstanding as of November 10, 2011

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

Part I: Financial Information	Page
Item 1.	Financial Statements
	Consolidated balance sheets as of September 30, 2011 (unaudited) and December 31, 2010 <u>1</u>
	Consolidated statements of operations for the three and nine <u>2</u> months ended September 30, 2011 and 2010 (unaudited)
	Consolidated statements of cash flows for the nine months <u>3</u> ended September 30, 2011 and 2010 (unaudited)
	Consolidated statements of changes in shareholders' equity <u>4</u> for the nine months ended September 30, 2011 and 2010 (unaudited)
	Notes to consolidated financial statements (unaudited) <u>5</u>
Item 2.	Management's Discussion and Analysis of Financial <u>28</u> Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures about Market Risk <u>46</u>
Item 4.	Controls and Procedures <u>46</u>
Part II: Other Information	
Item 1.	Legal Proceedings <u>47</u>
Item 1A.	Risk Factors <u>47</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds <u>47</u>
Item 3.	Defaults Upon Senior Securities <u>47</u>
Item 4.	(Removed and Reserved) <u>47</u>
Item 5.	Other Information <u>47</u>
Item 6.	Exhibits <u>48</u>
Signatures	<u>49</u>

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2011 and December 31, 2010
(Dollars in thousands, except share data)
(unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	\$12,832	\$6,146
Interest bearing deposits with banks	76,286	29,620
Federal funds sold	2,088	99
Cash and cash equivalents	91,206	35,865
Investment securities available for sale, at fair value	154,259	143,439
Investment securities held to maturity, at amortized cost (fair value of \$145 and \$157, respectively)	139	147
Restricted stock, at cost	5,594	6,501
Loans held for sale	1,390	—
Loans receivable (net of allowance for loan losses of \$12,380 and \$11,444, respectively)	621,256	608,911
Premises and equipment, net	23,906	25,496
Other real estate owned, net	13,988	15,237
Accrued interest receivable	3,101	3,119
Bank owned life insurance	12,661	12,555
Other assets	25,301	24,827
Total Assets	\$952,801	\$876,097
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand – non-interest bearing	\$126,310	\$128,578
Demand – interest bearing	98,293	66,283
Money market and savings	371,293	329,742
Time Deposits	237,393	233,127
Total Deposits	833,289	757,730
Accrued interest payable	1,238	953
Other liabilities	7,494	6,792
Subordinated debt	22,476	22,476
Total Liabilities	864,497	787,951
 Shareholders' Equity		
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized; no shares issued as of September 30, 2011 and December 31, 2010	—	—
Common stock, par value \$0.01 per share: 50,000,000 shares authorized; shares issued 26,501,742 as of September 30, 2011 and December 31, 2010	265	265

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Additional paid in capital	106,277	106,024
Accumulated deficit	(14,764)	(13,140)
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)
Stock held by deferred compensation plan	(809)	(809)
Accumulated other comprehensive income (loss)	434	(1,095)
Total Shareholders' Equity	88,304	88,146
Total Liabilities and Shareholders' Equity	\$952,801	\$876,097

(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, 2011 and 2010
 (Dollars in thousands, except per share data)
 (unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Interest income:				
Interest and fees on taxable loans	\$ 8,408	\$ 8,766	\$ 24,857	\$ 26,200
Interest and fees on tax-exempt loans	78	-	227	-
Interest and dividends on taxable investment securities	1,092	1,390	3,210	4,367
Interest and dividends on tax-exempt investment securities	114	111	341	333
Interest on federal funds sold and other interest-earning assets	34	4	82	40
Total interest income	9,726	10,271	28,717	30,940
Interest expense:				
Demand- interest bearing	159	119	425	326
Money market and savings	868	839	2,527	2,801
Time deposits	781	1,099	2,327	3,743
Other borrowings	279	293	853	1,229
Total interest expense	2,087	2,350	6,132	8,099
Net interest income	7,639	7,921	22,585	22,841
Provision for loan losses	616	700	5,666	16,950
Net interest income after provision for loan losses	7,023	7,221	16,919	5,891
Non-interest income:				
Loan advisory and servicing fees	137	146	293	299
Gain on sales of SBA loans	1,983	-	4,337	-
Service fees on deposit accounts	216	296	586	829
Gain on sale of investment securities	640	-	640	-
Other-than-temporary impairment losses	(45)	155	(49)	(673)
Portion recognized in other comprehensive income (before taxes)	5	(155)	7	301
Net impairment loss on investment securities	(40)	-	(42)	(372)
Gain on sale of other real estate owned	-	-	-	246
Bank owned life insurance income	40	44	106	146
Other non-interest income	979	35	1,238	102
Total non-interest income	3,955	521	7,158	1,250
Non-interest expenses:				
Salaries and employee benefits	4,135	3,192	11,280	9,110
Occupancy	850	751	2,494	3,247
Depreciation and amortization	527	529	1,588	1,497
Legal	400	476	1,274	1,429
Other real estate owned	315	165	1,739	1,117
Advertising	70	104	260	199

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Data processing	347	196	865	649
Insurance	200	209	637	744
Professional fees	383	477	1,271	1,367
Regulatory assessments and costs	507	530	1,550	1,603
Taxes, other	261	238	706	681
Other operating expenses	1,110	851	3,444	2,433
Total non-interest expense	9,105	7,718	27,108	24,076
Income (loss) before provision (benefit) for income taxes	1,873	24	(3,031)	(16,935)
Provision (benefit) for income taxes	509	(44)	(1,407)	(6,086)
Net income (loss)	\$ 1,364	\$ 68	\$ (1,624)	\$ (10,849)
Net income (loss) per share:				
Basic	\$ 0.05	\$ -	\$ (0.06)	\$ (0.67)
Diluted	\$ 0.05	\$ -	\$ (0.06)	\$ (0.67)

(See notes to consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows
 For the Nine Months Ended September 30, 2011 and 2010
 (Dollars in thousands)
 (unaudited)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (1,624)	\$ (10,849)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	5,666	16,950
Writedown of other real estate owned	1,252	885
Gain on sale of other real estate owned	-	(246)
Depreciation and amortization	1,588	1,497
Share based compensation	253	198
Gain on sale of investment securities	(640)	-
Impairment charges on investment securities	42	372
Amortization of premiums/(discounts) on investment securities	45	43
Proceeds from sales of SBA loans	47,046	-
SBA loans originated for sale	(44,099)	-
Gains on sales of SBA loans originated for sale	(4,337)	-
Increase in value of bank owned life insurance	(106)	(146)
Increase in accrued interest receivable and other assets	(831)	(2,248)
Increase in accrued interest payable and other liabilities	987	878
Net cash provided by operating activities	5,242	7,334
Cash flows from investing activities:		
Purchase of investment securities available for sale	(55,466)	-
Proceeds from the maturity or call of securities available for sale	47,569	38,159
Proceeds from the maturity or call of securities held to maturity	8	8
Proceeds from redemption of FHLB stock	907	-
Net (increase) decrease in loans	(19,024)	38,293
Net proceeds from sale of other real estate owned	1,010	2,988
Premises and equipment expenditures	(464)	(2,543)
Net cash (used in) provided by investing activities	(25,460)	76,905
Cash flows from financing activities:		
Net proceeds from stock offering	-	28,812
Net stock purchases for deferred compensation plans	-	(100)
Net increase in demand, money market and savings deposits	71,293	3,850
Net increase (decrease) in time deposits	4,266	(61,610)
Net decrease in other borrowings	-	(25,000)
Net cash provided by (used in) financing activities	75,559	(54,048)
Net increase in cash and cash equivalents	55,341	30,191

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Cash and cash equivalents, beginning of year		35,865		55,618
Cash and cash equivalents, end of year	\$	91,206	\$	85,809
Supplemental disclosures:				
Interest paid	\$	5,847	\$	7,895
Non-cash transfers from loans to other real estate owned		1,013		663

(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, 2011 and 2010

(Dollars in thousands, except per share data)

(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2011	\$ 265	\$ 106,024	\$ (13,140)	\$ (3,099)	\$ (809)	\$ (1,095)	\$ 88,146
Net loss			(1,624)				(1,624)
Other comprehensive gain, net of tax:							
Unrealized gain on securities (pre-tax \$2,343)						1,502	1,502
Reclassification adjustment for impairment charge (pre-tax \$42)						27	27
							1,529
Total comprehensive loss							(95)
Stock based compensation		253					253
BALANCE, SEPTEMBER 30, 2011	\$ 265	\$ 106,277	\$ (14,764)	\$ (3,099)	\$ (809)	\$ 434	\$ 88,304

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2010	\$ 111	\$ 77,086	\$ (2,450)	\$ (3,099)	\$ (709)	\$ (675)	\$ 70,264
Net loss			(10,849)				(10,849)
Other comprehensive gain, net of tax:							
Unrealized gain on securities (pre-tax \$2,493)						1,598	1,598
Reclassification adjustment for impairment charge (pre-tax \$372)						238	238
							1,836

Total comprehensive loss							(9,013)
Shares issued under common stock offering (15,412,350 shares)	154	28,658					28,812
Stock based compensation	-	198					198
Stock purchases for deferred compensation plan (24,489 shares)					(100)		(100)
BALANCE, SEPTEMBER 30, 2010	\$265	\$105,942	\$ (13,299)	\$(3,099)	\$ (809)	\$ 1,161	\$ 90,161

(See notes to consolidated financial statements)

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

Note 1: Basis of Presentation

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

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 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, including the Company’s past operating results and the Company’s forecast of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments about the Company’s future taxable income and are consistent with the plans and estimates management uses to manage the Company’s business. Any reduction in estimated future taxable income may require the Company to record a valuation allowance against its deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on the Company’s future earnings.

The Division of Corporate Finance at the U.S. Securities and Exchange Commission (“SEC”) selectively reviews filings made under the Securities Act of 1933 and the Securities Exchange Act of 1934 to monitor and enhance compliance with applicable accounting and disclosure requirements. As a result of this process the Company has received a comment letter from the SEC questioning the realizability of its deferred tax asset and the lack of a related valuation reserve. The Company has asked the SEC to reconsider its view related to the deferred tax asset and at this time the matter remains unresolved.

Stock-Based Compensation

The Company maintains the Amendment and Restatement No. 3 of the Stock Option Plan and Restricted Stock Plan of Republic First Bancorp, Inc. (“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, 2011, 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 a Black-Scholes option pricing model to determine the fair market value of stock options. In 2011, the following assumptions were utilized: a dividend yield of 0%; expected volatility of 49.11%; a risk-free interest rate of 2.84%; and an expected life of 7.0 years. In 2010, the following assumptions were utilized: a dividend yield of 0%; expected volatility of 33.67% to 37.37%; a risk-free interest rate of 2.06% to 3.46%; and an expected life of 7.0 years. A dividend yield of 0% is utilized, because cash dividends have never been paid. The expected life reflects a combination of a 3 to 4 year “all or nothing” vesting period, the maximum ten-year term and review of historical behavior. The volatility was based on Bloomberg’s seven-year volatility calculation for “FRBK” stock. The risk-free interest rate is based on the seven year Treasury bond. During the nine months ended September 30, 2011, 53,500 options vested. No options vested during the nine months ended September 30, 2010. Expense is recognized ratably over the period required to vest. There were 445,350 unvested options at January 1, 2011 with a fair value of \$1,158,861 with \$531,757 of that amount remaining to be recognized as expense. At September 30, 2011, there were 550,350 unvested options with a fair value of \$1,231,597 with \$554,517 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 785,893 options outstanding was \$0, while the intrinsic value of the 235,543 exercisable (vested) options was \$0.

Compensation expense of \$85,000 and \$253,000 was recognized during the three and nine months ended September 30, 2011, respectively. Compensation expense of \$78,000 and \$198,000 was recognized during the three and nine months ended September 30, 2010, respectively. For each of these periods, a 35% assumed tax benefit for the Plan was utilized in making the calculations.

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, 2011 and 2010, 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, 2011 and 2010 is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic and diluted earnings per share:				
Net income/(loss)	\$ 1,364	\$ 68	\$ (1,624)	\$ (10,849)
Weighted average shares outstanding	25,871	25,871	25,871	16,109
Net income (loss) per share – basic and diluted	\$ 0.05	\$ -	\$ (0.06)	\$ (0.67)

Recent Accounting Pronouncements

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 effective date of ASU 2011-05 differs for public and nonpublic companies. For public companies, the Update is effective for fiscal years and interim periods beginning after December 31, 2011. For nonpublic entities, the provisions are effective for fiscal years ending after December 31, 2012, and for interim and annual periods thereafter. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

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.

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 effective date of ASU 2011-04 differs for public and nonpublic companies. For public companies, the Update is effective for interim and annual periods beginning after December 15, 2011. For nonpublic entities, the Update is effective for annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

ASU 2011-02

In April 2011, the FASB issued Accounting Standards Update ("ASU") 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The FASB has issued this ASU to clarify the accounting principles applied to loan modifications, as defined by FASB ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors.

The ASU clarifies guidance on a creditor's evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than focus on specific criteria, such as the effective interest rate test, to determine a concession. The ASU goes on to provide guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor's evaluation of whether or not a debtor is experiencing financial difficulties.

The effective date of ASU 2011-02 differs for public and nonpublic companies. For public companies, the amendments in the ASU are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

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 branches.

Note 5: Comprehensive Income / (Loss)

Total comprehensive income (loss), which for the Company included net income (loss) and changes in unrealized gains and losses on the Company's available for sale securities, was \$1.1 million and \$610,000 for the three months ended September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, total comprehensive loss was \$95,000 and \$9.0 million, respectively.

Note 6: Investment Securities

A summary of the amortized cost and market value of securities available for sale and securities held to maturity at September 30, 2011 and December 31, 2010 is as follows:

	September 30, 2011			
	Investment Securities Available for Sale			
	Amortized	Gross	Gross	Fair
(Dollars in thousands)	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Mortgage-backed securities/CMOs	\$ 113,287	\$ 3,848	\$ -	\$ 117,135
Municipal securities	10,794	362	(473)	10,683
Corporate bonds	22,995	-	(110)	22,885
Pooled Trust Preferred Securities	6,375	-	(2,954)	3,421
Other securities	131	4		135
Total	\$ 153,582	\$ 4,214	\$ (3,537)	\$ 154,259

	September 30, 2011			
	Investment Securities Held to Maturity			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
(Dollars in thousands)				
U.S. Government agencies	\$2	\$-	\$-	\$2
Other securities	137	6	-	143
Total	\$139	\$6	\$-	\$145

	December 31, 2010			
	Investment Securities Available for Sale			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
(Dollars in thousands)				
Mortgage-backed securities/CMOs	\$125,011	\$2,784	\$(133)	\$127,662
Municipal securities	10,589	36	(1,415)	9,210
Corporate bonds	3,000	-	-	3,000
Pooled Trust Preferred Securities	6,417	-	(2,967)	3,450
Other securities	131	2	(16)	117
Total	\$145,148	\$2,822	\$(4,531)	\$143,439

	December 31, 2010			
	Investment Securities Held to Maturity			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
(Dollars in thousands)				
U.S. Government agencies	\$2	\$-	\$-	\$2
Other securities	145	10	-	155
Total	\$147	\$10	\$-	\$157

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at September 30, 2011 is as follows:

	September 30, 2011			
	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(Dollars in thousands)				
Due in 1 year or less	\$8	\$8	\$75	\$77
After 1 year to 5 years	86,377	88,669	44	48
After 5 years to 10 years	54,502	52,708	-	-
After 10 years	12,695	12,874	-	-
No stated maturity	-	-	20	20
Total	\$153,582	\$154,259	\$139	\$145

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, 2011 and December 31, 2010, the mortgage-backed securities and collateralized mortgage obligations included in the investment securities portfolio consist solely of securities issued by U.S. government sponsored agencies. There were no private label mortgage-backed securities held in the investment securities portfolio as of those dates. The Company does not hold any mortgage-backed securities that are rated “Alt-A” or “Subprime” as of September 30, 2011 and December 31, 2010. In addition, the Company does not hold any privately issued CMO’s as of September 30, 2011 and December 31, 2010.

In instances when a determination is made that an OTTI 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, changes the presentation and amount of the OTTI recognized in the income statement. The OTTI is 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 OTTI related to all other factors. The amount of the total OTTI related to other factors is recognized in other comprehensive income. In accordance with the updated guidance under ASC 320-10, the Company recorded impairment charges (credit losses) on bank pooled trust preferred securities for the three and nine months ended September 30, 2011 of \$40,000 and \$42,000, respectively, which was due to the default of a bank in one of the securities. The Company realized gross losses due to impairment charges on pooled trust preferred securities of \$0 and \$372,000 for the three and nine months ended September 30, 2010, respectively.

The Company realized gross gains on the sale of securities of \$640,000 during the three and nine months ended September 30, 2011. The tax provision applicable to these gross gains in 2011 amounted to approximately \$225,000. No securities were sold during the three and nine months ended September 30, 2010.

The following table shows 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:

	Less than 12 months		At September 30, 2011 12 months or longer		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
(Dollars in thousands)						
M o r t g a g e - b a c k e d securities/CMOs	\$-	\$-	\$30	\$-	\$30	\$-
Municipal securities	-	-	4,147	473	4,147	473
Corporate bonds	14,885	110	-	-	14,885	110
Trust Preferred Securities	-	-	3,431	2,954	3,431	2,954
Total	\$14,885	\$110	\$7,608	\$3,427	\$22,493	\$3,537

(Dollars in thousands)	Less than 12 months		At December 31, 2010 12 months or longer		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
M o r t g a g e - b a c k e d securities/CMOs	\$17,599	\$133	\$31	\$-	\$17,630	\$133
Municipal securities	5,288	398	3,599	1,017	8,887	1,415
Trust Preferred Securities	-	-	3,450	2,967	3,450	2,967
Other securities	-	-	74	16	74	16
Total	\$22,887	\$531	\$7,154	\$4,000	\$30,041	\$4,531

The impairment of the investment portfolio totaled \$3.5 million with a total fair value of \$22.5 million at September 30, 2011. The unrealized loss for the Bank's pooled trust preferred securities was due to the secondary market for such securities becoming inactive and is considered temporary at September 30, 2011.

The unrealized loss on the remaining securities is due to changes in market value resulting from changes in market interest rates and is also considered temporary. At September 30, 2011, the investment portfolio included twenty-five municipal securities with a total market value of \$10.7 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 the state of California where thirteen municipal securities had a market value of \$5.3 million. As of September 30, 2011, management found no evidence of OTTI on any of the municipal securities held in the investment securities portfolio.

Note 7: Loans Receivable and Allowance for Loan Losses

The following table sets forth the Company's gross loans by major categories as of September 30, 2011 and December 31, 2010:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Commercial real estate	\$393,652	\$374,935
Construction and land development	52,681	73,795
Commercial and industrial	79,162	78,428
Owner occupied real estate	88,677	70,833
Consumer and other	16,636	17,808
Residential mortgage	3,175	5,026
Total loans receivable	633,983	620,825
Deferred costs (fees)	(347)	(470)
Allowance for loan losses	(12,380)	(11,444)
Net loans receivable	\$621,256	\$608,911

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 commercial loans, but also include internally classified accruing loans. As of September 30, 2011, management identified one troubled debt restructuring in the loan portfolio in the amount of \$2.5 million. No troubled debt restructurings were identified as of December 31, 2010.

The following table presents the Company's impaired loans at September 30, 2011 and December 31, 2010:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Impaired loans without a valuation allowance	\$50,267	\$72,908
Impaired loans with a valuation allowance	20,965	14,206
Total impaired loans	\$71,232	\$87,114
Valuation allowance related to impaired loans	\$3,359	\$2,786
Total nonaccrual loans	32,006	39,992
Total loans past-due ninety days or more and still accruing	-	-

Impaired loans with a valuation allowance increased from \$14.2 million at December 31, 2010 to \$21.0 million at September 30, 2011. The increase was primarily due to valuation allowances, which were recorded during the nine month period ending September 30, 2011 for impaired loans which previously did not have a valuation allowance as of December 31, 2010. The valuation allowances recorded for these impaired loans were primarily driven by updated appraisals of collateral received during the nine month period ending September 30, 2011. Management determined that these valuation allowances did not have to be immediately charged off during this time period. Total impaired loans decreased by \$15.9 million to \$71.2 million at September 30, 2011 compared to \$87.1 million at December 31, 2010. This decrease was mainly driven by upgrades to loans previously categorized as impaired as a result of improved financial performance and strength of the borrowers. The valuation allowance related to impaired loans increased from \$2.8 million at December 31, 2010 to \$3.4 million at September 30, 2011.

As of September 30, 2011 and December 31, 2010, the average recorded investment in impaired loans was approximately \$78.8 million and \$100.3 million, respectively. The Company earned \$1.6 million and \$2.7 million of interest income on impaired loans (internally classified as accruing loans) for the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively. The Company recognized interest income on a cash basis on impaired loans of \$1.7 million and \$2.9 million during the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

The following table summarizes information in regards to impaired loans by loan portfolio class as of September 30, 2011 and December 31, 2010:

(Dollars in thousands)	At September 30, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	\$27,518	\$32,738	\$-	\$31,140	\$ 822
Construction and land development	18,767	33,022	-	17,328	144
Commercial and industrial	1,926	1,926	-	3,083	80
Owner occupied real estate	1,301	1,301	-	1,710	28
Consumer and other	755	985	-	709	-
Total	\$50,267	\$69,972	\$-	\$53,970	\$ 1,074
With an allowance recorded:					
Commercial real estate	\$14,476	\$14,476	\$2,015	\$12,901	\$ 411
Construction and land development	656	656	442	5,545	25
Commercial and industrial	4,039	6,509	583	3,784	16
Owner occupied real estate	1,794	1,794	319	2,610	96
Total	\$20,965	\$23,435	\$3,359	\$24,840	\$ 548
Total:					
Commercial real estate	\$41,994	\$47,214	\$2,015	\$44,041	\$ 1,233
Construction and land development	19,423	33,678	442	22,873	169
Commercial and industrial	5,965	8,435	583	6,867	96
Owner occupied real estate	3,095	3,095	319	4,320	124
Consumer and other	755	985	-	709	-
Total	\$71,232	\$93,407	\$3,359	\$78,810	\$ 1,622

(Dollars in thousands)	At December 31, 2010				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	\$40,840	\$46,119	\$-	\$43,144	\$ 1,341
Construction and land development	22,802	35,042	-	32,061	291
Commercial and industrial	6,482	7,992	-	7,040	160
Owner occupied real estate	2,278	2,278	-	2,370	132
Consumer and other	506	684	-	536	6
Total	\$72,908	\$92,115	\$-	\$85,151	\$ 1,930
With an allowance recorded:					
Commercial real estate	\$7,683	\$7,872	\$1,937	\$7,882	\$ 422
Construction and land development	2,289	2,440	45	2,602	23
Commercial and industrial	798	798	287	809	26
Owner occupied real estate	3,436	3,436	517	3,832	267
Total	\$14,206	\$14,546	\$2,786	\$15,125	\$ 738
Total:					
Commercial real estate	\$48,523	\$53,991	\$1,937	\$51,026	\$ 1,763
Construction and land development	25,091	37,482	45	34,663	314
Commercial and industrial	7,280	8,790	287	7,849	186
Owner occupied real estate	5,714	5,714	517	6,202	399
Consumer and other	506	684	-	536	6
Total	\$87,114	\$106,661	\$2,786	\$100,276	\$ 2,668

If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$1.6 million and \$2.4 million, for the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively.

The following is an analysis of the changes in the allowance for loan losses for the nine months ended September 30, 2011 and year ended December 31, 2010:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Balance at beginning of year	\$11,444	\$12,841
Provision for loan losses	5,666	16,600
Recoveries of loans previously charged off	50	1,171
Loan charge-offs	(4,780)	(19,168)

Balance at end of period	\$12,380	\$11,444
--------------------------	----------	----------

The following provides the ending balances of the allowance for credit losses and loan receivables by loan portfolio class as of September 30, 2011 and December 31, 2010:

At September 30, 2011
Allowance for Credit Losses

(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, 2011:								
Beginning balance:	\$ 8,646	\$ 1,819	\$ 2,729	\$ 1,596	\$ 124	\$ 33	\$ 161	\$ 15,108
Charge-offs	(1,062)	(1,305)	(975)	-	(3)	-	-	(3,345)
Recoveries	-	-	-	-	1	-	-	1
Provisions	99	460	-	93	(8)	(10)	(18)	616
Ending balance	\$ 7,683	\$ 974	\$ 1,754	\$ 1,689	\$ 114	\$ 23	\$ 143	\$ 12,380

Nine Months Ended September 30, 2011:

Beginning balance:	\$ 7,243	\$837	\$1,443	\$1,575	\$130	\$41	\$175	\$11,444
Charge-offs	(2,096)	(1,675)	(975)	-	(34)	-	-	(4,780)
Recoveries	9	2	-	-	39	-	-	50
Provisions	2,527	1,810	1,286	114	(21)	(18)	(32)	5,666
Ending balance	\$ 7,683	\$974	\$1,754	\$1,689	\$114	\$23	\$143	\$12,380

Ending balance: individually evaluated for impairment	\$ 2,015	\$ 442	\$583	\$ 319	\$ -	\$ -	\$ -	\$ 3,359
Ending balance: collectively evaluated for impairment	\$ 5,668	\$ 532	\$ 1,171	\$ 1,370	\$ 114	\$ 23	\$ 143	\$ 9,021
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

At September 30, 2011

Loans Receivable

Owner

(Dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Ending balance	\$393,652	\$ 52,681	\$ 79,162	\$ 88,677	\$ 16,636	\$ 3,175	\$ -	\$633,983
Ending balance: individually evaluated for impairment	\$41,994	\$ 19,423	\$ 5,965	\$ 3,095	\$ 755	\$ -	\$ -	\$71,232
Ending balance: collectively evaluated for impairment	\$351,658	\$ 33,258	\$ 73,197	\$ 85,582	\$ 15,881	\$ 3,175	\$ -	\$562,751
Ending balance: loans acquired with deteriorated credit quality	\$-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$-

At December 31, 2010

Allowance for Credit Losses

Owner

(Dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Ending balance	\$ 7,243	\$ 837	\$ 1,443	\$ 1,575	\$ 130	\$ 41	\$ 175	\$ 11,444
Ending balance: individually evaluated for impairment	\$ 1,937	\$ 45	\$ 287	\$ 517	\$ -	\$ -	\$ -	\$ 2,786
Ending balance: collectively evaluated for impairment	\$ 5,306	\$ 792	\$ 1,156	\$ 1,058	\$ 130	\$ 41	\$ 175	\$ 8,658
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

At December 31, 2010

Loans Receivable

(Dollars in thousands)	Commercial Construction		Commercial and Industrial	Owner Occupied		Consumer and Other	Residential Mortgage	Unallocated	Total
	Real Estate	and Land Development		Real Estate					
Ending balance	\$ 374,935	\$ 73,795	\$ 78,428	\$ 70,833		\$ 17,808	\$ 5,026	\$ -	\$ 620,825
Ending balance: individually evaluated for impairment	\$ 48,523	\$ 25,091	\$ 7,280	\$ 5,714		\$ 506	\$ -	\$ -	\$ 87,114
Ending balance: collectively evaluated for impairment	\$ 326,412	\$ 48,704	\$ 71,148	\$ 65,119		\$ 17,302	\$ 5,026	\$ -	\$ 533,711
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of September 30, 2011 and December 31, 2010:

At September 30, 2011

As of September 30, 2011							Loans Receivable > 90 Days and Accruing
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	
Commercial real estate	\$ -	\$ 7,588	\$ 11,217	\$ 18,805	\$ 374,847	\$ 393,652	\$ -
Construction and land development	-	413	15,718	16,131	36,550	52,681	-
Commercial and industrial	-	-	3,539	3,539	75,623	79,162	-
Owner occupied real estate	-	1,193	789	1,982	86,695	88,677	-
Consumer and other	-	12	743	755	15,881	16,636	-
Residential mortgage	-	-	-	-	3,175	3,175	-
Total	\$-	\$9,206	\$32,006	\$41,212	\$592,771	\$633,983	\$-

At December 31, 2010

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
Commercial real estate	\$ 1,249	\$ 12,155	\$ 14,955	\$ 28,359	\$ 346,576	\$ 374,935	\$ -
Construction and land development	-	3,006	18,970	21,976	51,819	73,795	-
Commercial and industrial	251	-	4,500	4,751	73,677	78,428	-
Owner occupied real estate	-	2,179	1,061	3,240	67,593	70,833	-
Consumer and other	164	198	461	823	16,985	17,808	-
Residential mortgage	-	-	-	-	5,026	5,026	-
Total	\$1,664	\$17,538	\$39,947	\$59,149	\$561,676	\$620,825	\$-

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2011 and December 31, 2010:

At September 30, 2011

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	\$336,292	\$8,346	\$49,014	\$-	\$393,652
Construction and land development	32,482	-	20,199	-	52,681
Commercial and industrial	69,217	2,766	7,179	-	79,162
Owner occupied real estate	82,270	275	6,132	-	88,677
Consumer and other	15,411	213	1,012	-	16,636
Residential mortgage	3,175	-	-	-	3,175
Total	\$538,847	\$11,600	\$83,536	\$-	\$633,983

At December 31, 2010

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	\$299,916	\$18,531	\$56,488	\$-	\$374,935
Construction and land development	36,775	-	37,020	-	73,795
Commercial and industrial	65,361	2,794	10,273	-	78,428
Owner occupied real estate	60,849	3,923	6,061	-	70,833

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Consumer and other	16,977	-	831	-	17,808
Residential mortgage	5,026	-	-	-	5,026
Total	\$484,904	\$25,248	\$ 110,673	\$-	\$620,825

The following table shows non-accrual loans by class as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
(Dollars in thousands)		
Commercial real estate	\$11,217	\$14,955
Construction and land development	15,718	18,970
Commercial and industrial	3,539	4,500
Owner occupied real estate	789	1,061
Consumer and other	743	506
Residential mortgage	-	-
Total	\$32,006	\$39,992

Troubled Debt Restructurings

The Company adopted the amendments in Accounting Standards Update No. 2011-02 during the current period ended September 30, 2011. As required, the Company reassessed all restructurings that occurred on or after the beginning of the current fiscal year (January 1, 2011) for identification as troubled debt restructurings. The Company identified one loan as a troubled debt restructuring for which the allowance for credit loss had previously been measured under a general allowance for credit losses methodology (ASC 450-20). Upon identifying the reassessed receivable as a troubled debt restructuring, the Company also identified it as impaired under the guidance in ASC 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired.

The following table summarizes information in regards to troubled debt restructurings for the nine months ended September 30, 2011 (dollars in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Troubled Debt Restructurings			
Commercial real estate	1	\$ 2,563	\$ 2,535

There were no troubled debt restructurings that subsequently defaulted.

As indicated in the table above, the Company modified one commercial real estate loan during the nine months ended September 30, 2011. As a result of the modified terms of the new loan, the Company accelerated the maturity date of the loan. The effective interest rate of the modified loan was reduced when compared to the interest rate of the original loan. The loan has also been converted to interest only payments for a period of time. The loan has been and continues to be an accruing loan. The borrower has remained current since the modification.

Note 8: Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The Company follows the guidance issued under ASC 820-10, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value under GAAP, and identifies required disclosures on fair value measurements.

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2011 and December 31, 2010 were as follows:

	Total Fair Value	At September 30, 2011		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Mortgage Backed Securities/CMOs	\$ 117,135	\$-	\$ 117,135	\$ -
Municipal securities	10,683	-	10,683	-
Corporate bonds	22,885	-	19,885	3,000
Pooled Trust Preferred Securities	3,421	-	-	3,421
Other securities	135	-	135	-
SBA servicing asset	938	-	-	938
Total fair value	\$ 155,197	\$-	\$ 147,838	\$ 7,359

	Total Fair Value	At December 31, 2010		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in thousands)				
Mortgage Backed Securities/CMOs	\$ 127,662	\$-	\$ 127,662	\$ -
Municipal securities	9,210	-	9,210	-
Corporate bonds	3,000	-	-	3,000
Pooled Trust Preferred Securities	3,450	-	-	3,450
Other securities	117	-	117	-
Total fair value	\$ 143,439	\$-	\$ 136,989	\$ 6,450

The following table presents a reconciliation of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2011 and the year ended December 31, 2010:

	At September 30, 2011			
	Corporate Bonds	Pooled Trust Preferred Securities	SBA Servicing Asset	Total
Beginning Balance, January 1, 2011	\$3,000	\$3,450	\$-	\$6,450

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Originations	-	-	952	952
Unrealized gains/(losses)	-	13	-	13
Amortization of servicing asset	-	-	(14) (14
Impairment charges	-	(42) -	(42
Ending Balance, September 30, 2011	\$3,000	\$3,421	\$938	\$7,359

(Dollars in thousands)

	At December 31, 2010			
		Pooled		
		Trust	SBA	
	Corporate	Preferred	Servicing	Total
	Bonds	Securities	Asset	
Beginning Balance, January 1, 2010	\$-	\$3,926	\$-	\$3,926
Transfers into Level 3	3,000	-	-	3,000
Unrealized gains/(losses)	-	(104)	-	(104)
Impairment charges	-	(372)	-	(372)
Ending Balance, December 31, 2010	\$3,000	\$3,450	\$-	\$6,450

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2011 and December 31, 2010 were as follows:

	At September 30, 2011			
		Quoted		
		Prices in		
		Active		
		Markets	Significant	
		for	Other	Significant
		Identical	Observable	Unobservable
	Total Fair	Assets	Inputs	Inputs
	Value	(Level 1)	(Level 2)	(Level 3)
(Dollars in thousands)				
Impaired loans	\$17,606	\$-	\$-	\$ 17,606
Other real estate owned	13,988	-	-	13,988
Total fair value	\$31,594	\$-	\$-	\$ 31,594

	At December 31, 2010			
		Quoted		
		Prices in		
		Active		
		Markets	Significant	
		for	Other	Significant
		Identical	Observable	Unobservable
	Total Fair	Assets	Inputs	Inputs
	Value	(Level 1)	(Level 2)	(Level 3)
(Dollars in thousands)				
Impaired loans	\$11,420	\$-	\$-	\$ 11,420
Other real estate owned	15,237	-	-	15,237
Total fair value	\$26,657	\$-	\$-	\$ 26,657

The recorded investment in impaired loans with a valuation allowance totaled \$21.0 million at September 30, 2011 and \$14.2 million at December 31, 2010. The amounts of related valuation allowances were \$3.4 million and \$2.8 million, respectively, at September 30, 2011 and December 31, 2010.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at September 30, 2011 and December 31, 2010:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

The types of instruments valued based on matrix pricing in active markets include all of the Company's U.S. government and agency securities and municipal obligations. Such instruments are generally classified within Level 2 of the fair value hierarchy. As required by ASC 820-10, the Company does not adjust the matrix pricing for such instruments.

For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows. The Level 3 investment securities classified as available for sale are primarily comprised of various issues of bank pooled trust preferred securities and a corporate bond.

Bank pooled trust preferred consists of the debt instruments of various banks, diversified by the number of participants in the security as well as geographically. The securities are performing according to terms, however the secondary market for such securities has become inactive, and such securities are therefore classified as Level 3 securities. The fair value analysis does not reflect or represent the actual terms or prices at which any party could purchase the securities. There is currently no secondary market for the securities and there can be no assurance that any secondary market for the securities will develop.

A third party pricing service was used in the development of the fair market valuation. The calculations used to determine fair value are based on the attributes of the bank pooled trust preferred securities, the financial condition of the issuers of the bank pooled trust preferred securities, and market based assumptions. The INTEx CDO Deal Model Library was utilized to obtain information regarding the attributes of each security and its specific collateral as of September 30, 2011 and December 31, 2010. Financial information on the issuers was also obtained from Bloomberg, the FDIC and the Office of Thrift Supervision and SNL Financial. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. For more information on these assumptions, refer to the Company's most recent 10-K. Due to the current state of the global capital and financial markets, the fair market valuation is subject to greater uncertainty that would otherwise exist.

Fair market valuation for each security was determined based on discounted cash flow analyses. ASC 820-10 provides guidance on the discount rates to be used when a market is not active. The discount rate should take into account the time value of money, price for bearing the uncertainty in the cash flows and other case specific factors that would be considered by market participants, including a liquidity adjustment. The discount rates used are LIBOR 3-month and 6-month forward-looking curves plus a range of 404 to 989 basis points. In addition, the cash flows are primarily dependent on the estimated speeds at which the bank pooled trust preferred securities are expected to prepay, the estimated rates at which the bank pooled trust preferred securities are expected to defer payments, the estimated rates at which the bank pooled trust preferred securities are expected to default, and the severity of the losses on securities which default. Management's estimates of cash flows used to evaluate other-than-temporary impairment of pooled trust-preferred securities were based on sensitive assumptions regarding the timing and amounts of defaults that may occur, and changes in those assumptions could produce different conclusions for each security.

Also included in Level 3 investment securities classified as available for sale is a single-issue corporate bond transferred from Level 2 in 2010 since the bond is not actively traded. Impairment would depend on the repayment ability of the single underlying institution, which is supported by a detailed quarterly review of the institution's financial statements. The institution is a "well capitalized" institution under banking regulations and has recently demonstrated the ability to raise additional capital, when necessary, through the public capital market.

Loans Receivable, including Loans Held for Sale (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Other Real Estate Owned (Carried at Lower of Cost or Market)

These assets are carried at the lower of cost or market. At September 30, 2011, these assets were carried at current market value.

Restricted Stock (Carried at Cost)

The carrying amount of restricted stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

FHLB Advances (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debt (Carried at Cost)

Fair values of subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Off-Balance Sheet Financial Instruments (Disclosed at Notional amounts)

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Company's financial instruments were as follows at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in thousands)				
Balance Sheet Data				
Financial assets:				
Cash and cash equivalents	\$91,206	\$91,206	\$35,865	\$35,865
Investment securities available for sale	154,259	154,259	143,439	143,439
Investment securities held to maturity	139	145	147	157
Restricted stock	5,594	5,594	6,501	6,501
Loans held for sale	1,390	1,551	-	-
Loans receivable, net	621,256	621,291	608,911	611,813
Accrued interest receivable	3,101	3,101	3,119	3,119
Financial liabilities:				
Deposits				
Demand, savings and money market	\$595,896	\$595,896	\$524,603	\$524,603
Time	237,393	239,115	233,127	234,417
Subordinated debt	22,476	18,307	22,476	17,728

Edgar Filing: REPUBLIC FIRST BANCORP INC - Form 10-Q

Accrued interest payable	1,238	1,238	953	953
Off-Balance Sheet Data				
Commitments to extend credit	-	-	-	-
Standby letters-of-credit	-	-	-	-

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

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

Certain statements in this report may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "may," "believes," "expect," "estimate," "project," "anticipate," "should," "intend," "probability," "risk," "target," "objective" and similar variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; new service and product offerings by competitors and price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as may be required by applicable laws or regulations. Readers should carefully review the risk factors described in the Form 10-K for the year ended December 31, 2010 and other documents the Company files from time to time with the SEC, such as Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K, as well as other filings.

Regulatory Reform and Legislation

Last year, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted. This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years. The discussion below generally discusses the material provisions of the Dodd-Frank Act applicable to the Company and the Bank and is not complete or meant to be an exhaustive discussion.

Among other things, the Dodd-Frank Act directs the Federal Deposit Insurance Corporation to redefine the base for deposit insurance assessments paid by banks (assessments will now be based on the average consolidated total assets less tangible equity of a financial institution), permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, extends the FDIC's program of insuring non-interest bearing transaction accounts on an unlimited basis through December 31, 2012, increases the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35% of estimated insured deposits and requires the FDIC to take the necessary steps for the reserve ratio to reach the new minimum reserve ratio by September 30, 2020, imposes new capital requirements on bank and thrift holding companies, permits interest on demand deposits, imposes new restrictions on transactions between banks and thrifts and their affiliates and insiders, relaxes de novo branching and imposes additional requirements for interstate bank acquisitions and mergers.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets, such as Republic, will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives.

The Company expects that many of the requirements called for in the Dodd-Frank Act will be implemented over time, and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on financial institutions’ operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of the Company’s business activities, require changes to certain of its business practices, impose upon it more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect the Company’s business. These changes also may require the Company to invest significant management attention and resources to make any necessary changes to its operations in order to comply, and could materially adversely affect its business, results of operations and financial condition.

Financial Condition

Assets

Total assets increased by \$76.7 million to \$952.8 million at September 30, 2011, compared to \$876.1 million at December 31, 2010. The increase was primarily driven by growth in deposits, which resulted in an increase in cash and cash equivalents of \$55.3 million, a \$10.8 million increase in investment securities, and the ability to fund net loan growth of \$12.3 million.

Cash and Cash Equivalents

Cash and due from banks, interest bearing deposits and federal funds sold comprise this category, which consists of the Company’s most liquid assets. The aggregate amount in these three categories increased by \$55.3 million, to \$91.2 million at September 30, 2011, from \$35.9 million at December 31, 2010. This increase was caused by growth in deposit balances during the first nine months of 2011 combined with a conservative approach in investment strategy related to the Company’s securities portfolio.

Loans Held for Sale

Loans held for sale are comprised of loans guaranteed by the U.S. Small Business Administration (“SBA”), which the Company usually originates with the intention of selling in the future. During the first nine months of 2011, the Company originated SBA loans totaling \$44.1 million and transferred the guaranteed portion of those loans totaling \$42.7 million to the loans held for sale category. Total SBA loans held for sale were \$1.4 million at September 30, 2011.

Loans Receivable

The loan portfolio represents the Company's largest asset category and is its most significant source of interest income. The Company's lending strategy is focused on small and medium size businesses and professionals that seek highly personalized banking services. The loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Commercial loans typically range between \$250,000 and \$5,000,000 but customers may borrow significantly larger amounts up to Republic's legal lending limit to a customer, which was approximately \$16.4 million at September 30, 2011. Loans made to one individual customer even if secured by different collateral, are aggregated for purposes of the lending limit. Gross loans increased \$13.2 million, to \$633.6 million at September 30, 2011, compared to \$620.4 million at December 31, 2010 mainly as a result of new originations in the owner occupied real estate category.

Investment Securities

Investment securities available-for-sale are investments which may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. The Company's investment securities available-for-sale consist primarily of U.S. Government agency mortgage-backed securities (MBS), agency collateralized mortgage obligations (CMO), municipal securities, corporate bonds and pooled trust preferred securities. Available-for-sale securities totaled \$154.3 million at September 30, 2011, compared to \$143.4 million at December 31, 2010. The increase of \$10.9 million was mainly attributable to the purchase of corporate bonds during the third quarter 2011, partially offset by the sale of CMO securities held in the investment portfolio. At September 30, 2011, the portfolio had a net unrealized gain of \$683,000 compared to a net unrealized loss of \$1.7 million at December 31, 2010.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of debt securities and stocks. At September 30, 2011 and December 31, 2010, securities held to maturity totaled \$139,000 and \$147,000, respectively.

Restricted Stock

Restricted stock, which represents required investment in the common stock of correspondent banks related to a credit facility, is carried at cost and as of September 30, 2011 and December 31, 2010, consists of the common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh and Atlantic Central Bankers Bank ("ACBB"). In December 2009, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of excess capital stock investments. Beginning in October 2010, the FHLB of Pittsburgh started to repurchase portions of Republic's outstanding restricted stock which was in excess of the minimum required investment. Decisions regarding any future repurchase of restricted stock will be made on a quarterly basis.

At September 30, 2011 and December 31, 2010, the investment in FHLB of Pittsburgh stock totaled \$5.5 million and \$6.4 million, respectively. At both September 30, 2011 and December 31, 2010, ACBB stock totaled \$143,000.

Other Real Estate Owned

The balance of other real estate owned decreased by \$1.2 million to \$14.0 million at September 30, 2011 from \$15.2 million at December 31, 2010 primarily due to write-downs of \$1.3 million and proceeds from sales of \$1.0 million recorded in the first nine months of 2011, partially offset by a transfer from non-performing loans of \$1.1 million.

Deposits

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits, are Republic's major source of funding. Deposits are generally solicited from the Company's market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships.

Total deposits increased by \$75.6 million to \$833.3 million at September 30, 2011 from \$757.7 million at December 31, 2010 primarily as a result of the Company's retail strategy, which focuses on relationship banking. The most significant increases were recognized in the demand – interest bearing and money market categories.

Results of Operations

Three Months Ended September 30, 2011 Compared to September 30, 2010

The Company reported net income of \$1.4 million, or \$0.05 per share, for the three months ended September 30, 2011, compared to net income of \$68,000, or \$0.00 per share, for the three months ended September 30, 2010. The increase in net income was primarily driven by an increase in non-interest income from \$521,000 for the three months ended September 30, 2010 to \$4.0 million for the three months ended September 30, 2011.

Net interest income for the three month period ended September 30, 2011 was \$7.6 million, compared to \$7.9 million for the three month period ended September 30, 2010. Interest income decreased \$545,000, or 5.3%, from \$10.3 million for the three months ended September 30, 2010 to \$9.7 million for the three months ended September 30, 2011, primarily due to a 33 basis point decrease in the yield on average interest earning assets. Interest expense decreased \$263,000, or 11.2%, from \$2.4 million for the three months ended September 30, 2010 to \$2.1 million for the three months ended September 30, 2011, due to a 14 basis point decrease in the rate on average interest-bearing deposits outstanding. This decrease is the result of the Company's continued focus on the gathering of low-cost core deposits.

Non-interest income increased \$3.4 million to \$4.0 million during the three months ended September 30, 2011 compared to \$521,000 during the three months ended September 30, 2010 primarily due to gains recognized on the sale of SBA loans of \$2.0 million during the third quarter of 2011, a settlement of \$750,000 related to the resolution of a legal dispute, and a \$640,000 gain on the sale of investment securities. Non-interest expenses increased \$1.4 million to \$9.1 million during the three months ended September 30, 2011 as compared to \$7.7 million during the three months ended September 30, 2010 primarily due to expenses related to the origination and sale of SBA loans during the third quarter of 2011. Return on average assets and average equity from continuing operations were 0.58% and 6.17%, respectively, during the three months ended September 30, 2011 compared to 0.03% and 0.30%, respectively, for the three months ended September 30, 2010.

Nine Months Ended September 30, 2011 compared to September 30, 2010

The Company reported a net loss of \$1.6 million, or \$0.06 per share, for the nine months ended September 30, 2011, as compared to a net loss of \$10.8 million, or \$0.67 per share, for the nine months ended September 30, 2010. The improved results are primarily due to the decrease in the provision for loan losses from \$17.0 million during 2010 compared to \$5.7 million in 2011 as credit quality continues to improve and the Company continues to successfully reduce the balance of impaired loans.

Net interest income for the nine months ended September 30, 2011 decreased \$256,000 as compared to the nine months ended September 30, 2010. During this same period, interest income decreased \$2.2 million, or 7.2%, due to a \$41.4 million decrease in average interest earning assets and interest expense decreased \$2.0 million, or 24.3%, primarily due to a \$50.9 million decrease in average interest bearing liabilities and a 21 basis point decrease in the rate on average interest-bearing deposits outstanding.

Non-interest income increased \$5.9 million to \$7.2 million during the nine months ended September 30, 2011 as compared to \$1.3 million during the nine months ended September 30, 2010 primarily due to gains recognized on the sale of SBA loans during the nine months ended September 30, 2011. Non-interest expenses increased \$3.0 million to \$27.1 million during the nine months ended September 30, 2011 as compared to \$24.1 million during the nine months ended September 30, 2010 primarily due to the addition of an SBA lending team during 2011. Return on average assets and average equity from continuing operations were (0.24)% and (2.48)%, respectively, during the nine months ended September 30, 2011 compared to (1.53)% and (18.89)%, respectively, for the nine months ended September 30, 2010.

Analysis of Net Interest Income

Historically, the Company's earnings have depended primarily upon Republic's net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is affected by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities. The following table provides an analysis of net interest income, setting forth for the periods (i) average assets, liabilities, and shareholders' equity, (ii) interest income earned on interest-earning assets and interest expense on interest-bearing liabilities, (iii) annualized average yields earned on interest-earning assets and average rates on interest-bearing liabilities, and (iv) Republic's annualized net interest margin (net interest income as a percentage of average total interest-earning assets). Averages are computed based on daily balances. Non-accrual loans are included in average loans receivable. All yields are adjusted for tax equivalency.

Average Balances and Net Interest Income

(Dollars in thousands)	For the Three Months Ended September 30, 2011				For the Three Months Ended September 30, 2010			
	Average Balance	Interest Rate	Yield/ Rate(1)		Average Balance	Interest Rate	Yield/ Rate(1)	
Interest-earning assets:								
Federal funds sold and other interest-earning assets	\$72,214	\$34	0.19	%	\$15,888	\$4	0.10	%
Investment securities and restricted stock	151,120	1,268	3.36	%	174,059	1,562	3.59	%
Loans receivable	637,477	8,528	5.31	%	653,618	8,766	5.32	%
Total interest-earning assets	860,811	9,830	4.53	%	843,565	10,332	4.86	%
Other assets	71,649				78,405			
Total assets	\$932,460				\$921,970			
Interest-earning liabilities:								
Demand – non-interest bearing	\$120,443				\$109,617			
Demand – interest bearing	100,516	\$159	0.63	%	59,934	\$119	0.79	%
Money market & savings	347,727	868	0.99	%	314,626	839	1.06	%
Time deposits	245,083	781	1.26	%	312,364	1,099	1.40	%
Total deposits	813,769	1,808	0.88	%	796,541	2,057	1.02	%
Total interest-bearing deposits	693,326	1,808	1.03	%	686,924	2,057	1.19	%
Other borrowings	22,552	279	4.91	%	26,511	293	4.38	%
Total interest-bearing liabilities	715,878	2,087	1.16	%	713,435	2,350	1.31	%
Total deposits and other borrowings	836,321	2,087	0.99	%	823,052	2,350	1.13	%
Non interest-bearing other liabilities	8,468				9,068			
Shareholders' equity	87,671				89,850			
Total liabilities and shareholders' equity	\$932,460				\$921,970			
Net interest income (2)		\$7,743				\$7,982		
Net interest spread			3.37	%			3.55	%
Net interest margin (2)			3.57	%			3.75	%

(1)Yields on investments are calculated based on amortized cost.

(2)Net interest income and net interest margin are presented on a tax equivalent basis. Net interest income has been increased over the financial statement amount by \$104,000 and \$61,000 for the three months ended September 30, 2011 and 2010, respectively, to adjust for tax equivalency. The tax equivalent net interest margin is calculated by dividing tax equivalent net interest income by average total interest earning assets.

Rate/Volume Analysis of Changes in Net Interest Income

Net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table sets forth an analysis of volume and rate changes in net interest income for the three and nine months ended September 30, 2011, as compared to the three and nine months ended September 30, 2010. For purposes of this table, changes in interest income and expense are allocated to volume and rate categories based upon the respective changes in average balances and average rates.

(Dollars in thousands)	For the Three Months Ended September 30, 2011 vs. 2010 Changes due to:			For the Nine Months Ended September 30, 2011 vs. 2010 Changes due to:		
	Average Volume	Average Rate	Total Change	Average Volume	Average Rate	Total Change
Interest earned:						
Federal funds sold and other interest-earning assets	\$ 26	\$4	\$30	\$45	\$(3)	\$42
Securities	(194)	(100)	(294)	(708)	(437)	(1,145)
Loans	(216)	(22)	(238)	(1,503)	509	(994)
Total interest-earning assets	\$ (384)	\$(118)	\$(502)	\$(2,166)	\$69	\$(2,097)
Interest expense:						
Deposits						
Interest-bearing demand deposits	\$ (64)	\$24	\$(40)	\$(146)	\$47	\$(99)
Money market and savings	(83)	54	(29)	(135)	409	274
Time deposits	214	104	318	781	635	1,416
Total deposit interest expense	67	182	249	500	1,091	1,591
Other borrowings	49	(35)	14	494	(118)	376
Total interest expense	116	147	263	994	973	1,967
Net interest income	\$ (268)	\$29	\$(239)	\$(1,172)	\$1,042	\$(130)

Net Interest Income

The Company's total tax equivalent interest income decreased \$502,000, or 4.9%, to \$9.8 million for the three months ended September 30, 2011 when compared to the three months ended September 30, 2010, primarily due to the \$39.1 million reduction of loans and investment securities balances during the three months ended September 30, 2011. For the nine months ended September 30, 2011, total tax equivalent interest income decreased \$2.1 million, or 6.7%, to \$29.0 million for the nine months ended September 30, 2011, when compared to the nine months ended September 30, 2010, primarily due to the \$41.4 million reduction of interest-earning asset balances during the nine month period ended September 30, 2011. Average loans receivable declined \$16.1 million and \$37.8 million during the three and nine months ended September 30, 2011, respectively, due to the effort to reduce exposure in the commercial real estate loan portfolio and decrease impaired loan balances. Average investment securities declined \$22.9 million and \$29.2 million during the three and nine months ended September 30, 2011, respectively, due to calls and maturities of securities over the last twelve months, primarily in the agency bond and mortgage-backed security categories.

The Company's total interest expense decreased \$263,000, or 11.2%, to \$2.1 million for the three months ended September 30, 2011 as compared to \$2.4 million for the three months ended September 30, 2010. Total interest expense for the nine months ended September 30, 2011 decreased \$2.0 million, or 24.3%, to \$6.1 million as compared to \$8.1 million for the nine months ended September 30, 2010. Average deposit balances increased \$17.2 million for the three months ended September 30, 2011 reflecting the Company's continued focus on the gathering of low cost core deposits. Average deposit balances declined \$37.5 million for the nine months ended September 30, 2011 as a result of the intentional reduction in volatile sources of funding, such as brokered and public fund certificates of deposit. Average other borrowings decreased \$4.0 million and \$14.8 million for the three and nine months ended September 30, 2011, primarily as a result of the maturity of \$25.0 million FHLB term borrowings in June 2010. The average rate paid on interest-bearing liabilities decreased 15 and 27 basis points, respectively, to 1.16% for the three months ended September 30, 2011 and 1.18% for the nine months ended September 30, 2011. Average time deposit balances declined \$67.3 million and \$84.0 million for the three and nine months ended September 30, 2011, respectively. The maturity and rollover of higher cost time deposits resulted in the decrease in the average rate paid on time deposits of 14 basis points to 1.26% for the three months ended September 30, 2011 and 26 basis points to 1.24% for the nine months ended September 30, 2011. The majority of the decrease in interest expense on deposits reflected the impact of the Company's strategy to gather low-cost core deposits through relationship banking over the last twelve months. Accordingly, rates on total interest-bearing deposits decreased 16 and 25 basis points, respectively, during the three and nine months ended September 30, 2011.

The tax equivalent net interest margin decreased by 18 basis points to 3.57% for the three months ended September 30, 2011, compared to 3.75% for the three months ended September 30, 2010 and the Company's tax equivalent net interest income decreased \$239,000, or 3.0%, to \$7.7 million for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. For the nine months ended September 30, 2011, the tax equivalent net interest margin increased 16 basis points to 3.67%, compared to 3.51% for the nine months ended September 30, 2010 and the Company's tax equivalent net interest income decreased \$130,000, or 0.6%, to \$22.9 million for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management believes is adequate to absorb inherent losses in the loan portfolio. The provision for loan losses amounted to \$616,000 for the three months ended September 30, 2011 compared to \$700,000 for the three months ended September 30, 2010. For the nine months ended September 30, 2011 and 2010, the provision for loan losses amounted to \$5.7 million and \$17.0 million, respectively.

The reduction in the provision for loan losses for both the three and nine month periods ending September 30, 2011 compared to the three and nine month periods ending September 30, 2010 is reflective of the reduction in non-performing loan balances and improved credit quality trends. The provision recorded during the third quarter of 2011 and nine months ended September 30, 2011 was driven by updated appraisals and financial data received during those period related to impaired loans that had been identified as substandard in prior periods. All loans currently classified as impaired were originated prior to December 31, 2007. For further analysis, please see "Credit Quality".

Non-Interest Income

Total non-interest income increased by \$3.4 million to \$4.0 million for the three months ended September 30, 2011, compared to \$521,000 for the three months ended September 30, 2010. For the nine months ended September 30, 2011, total non-interest income increased \$5.9 million to \$7.2 million as compared to \$1.3 million for the nine months ended September 30, 2010. An experienced team of SBA lenders was hired by the company in January 2011. The increases were primarily due to gains of \$2.0 and \$4.3 million recognized on the sale of SBA loans during the three and nine months ended September 30, 2011, respectively. During the third quarter of 2011 there was a settlement of \$750,000 related to the resolution of a legal dispute, and a \$640,000 gain on the sale of investment securities from the available for sale portfolio.

Non-Interest Expenses

Total non-interest expenses increased \$1.4 million to \$9.1 million for the three months ended September 30, 2011, compared to \$7.7 million for the three months ended September 30, 2010. The increase in total non-interest expenses was primarily due to \$847,000 in expenses related to the origination and sale of SBA loans. This mainly includes salaries, benefits, occupancy and referral fees related to the SBA lending team. For the nine months ended September 30, 2011, total non-interest expenses increased \$3.0 million to \$27.1 million, compared to \$24.1 million for the nine months ended September 30, 2010, which was primarily due to expenses related to the origination and sale of SBA loans of \$1.6 million as well as an increase of \$622,000 in carrying costs and write-downs associated with other real estate owned.

Income Taxes

The benefit for income taxes decreased by \$553,000 to a \$509,000 provision for the three months ended September 30, 2011, compared to a \$44,000 benefit for the three months ended September 30, 2010. The benefit for income taxes decreased \$4.7 million, to a \$1.4 million benefit for the nine months ended September 30, 2011, compared to a \$6.1 million benefit for the nine months ended September 30, 2010 primarily as a result of the decrease in the pre-tax loss. The effective tax rates for the three-month periods ended September 30, 2011 and 2010 were 27% and 185%, respectively, and for the nine months periods ended September 30, 2011 and 2010 were 46% and 36%, respectively.

The Company's net deferred tax asset increased to \$13.3 million at September 30, 2011 compared to \$12.8 million at December 31, 2010. This increase was primarily driven by the benefit for income taxes recorded during the nine month period ending September 30, 2011. The \$13.3 million net deferred tax asset as of September 30, 2011 is comprised of \$5.2 million currently recognizable through net operating loss carry-forwards and \$8.1 million attributable to several items associated with temporary timing differences which will reverse at some point in the future to provide a reduction in tax liabilities. The Company's largest future reversal relates to its allowance for loan losses, which totaled \$4.4 million as of September 30, 2011. The Company expects the full allowance driven component of its deferred tax asset to reverse in the future. The earliest period that the \$5.2 million related to net operating loss carry-forwards will expire occurs in the year 2030, leaving over 19 years for recognition. As for the items related to temporary timing differences, the 20 year time period for realization of each respective item has not yet begun and would have to be triggered by a future event, prolonging the time period for recovery.

The Company evaluates the carrying amount of its deferred tax assets on a quarterly basis or more frequently, if necessary in accordance with the guidance provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 (ASC 740), in particular, applying the criteria set forth therein to determine whether it is more likely than not (i.e. a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management makes a determination based on the available evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies and assessments of the current and future economic and business conditions.

In conducting the deferred tax asset analysis, the Company believes it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by financial institutions and their ability to absorb potential losses are important distinctions to be considered for bank holding companies like the Company.

The Company evaluates the realizability of the deferred tax asset based on history of earnings, expectations for future earnings and expected timing of the reversal of temporary differences. As of September 30, 2011, the Company concluded that it is more likely than not that the deferred tax asset would be realized in full and that a valuation allowance was not required. In reaching this conclusion the Company carefully weighed both positive and negative evidence currently available. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carry-back years, as well as future taxable income. If there are substantial, adverse economic developments that cause a deterioration of credit quality or profitability impacting the projection of future taxable income, the judgments made regarding the deferred tax asset may change. This could result in the recognition of a valuation allowance and additional income tax expense in the Consolidated Statement of Operations which would negatively impact earnings. As noted in the financial statements, the Company has received a comment letter from the SEC questioning the realizability of its deferred tax asset and the lack of a related valuation reserve. The Company has asked the SEC to reconsider its view related to the deferred tax asset and at this time the matter remains unresolved.

Commitments, Contingencies and Concentrations

Financial instruments, whose contract amounts represent potential credit risk, were commitments to extend credit of approximately \$73.4 million and \$62.0 million, and standby letters of credit of approximately \$3.1 million and \$3.6 million, at September 30, 2011 and December 31, 2010, respectively. These financial instruments constitute off-balance sheet arrangements. Commitments often expire without being drawn upon. Substantially all of the \$73.4 million of commitments to extend credit at September 30, 2011 were committed as variable rate credit facilities.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. The Company's commitments generally have fixed expiration dates or other termination clauses and many require the payment of fees. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In issuing commitments, the Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral required in connection with any commitment is based on management's credit evaluation of the customer. The type of required collateral varies, but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Standby letters of credit are conditional commitments that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in issuing loan commitments. The amount of collateral which may be pledged to secure a letter of credit is based on management's credit evaluation of the customer. The type of collateral which may be held varies, but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Regulatory Matters

The following table presents the capital regulatory ratios for both Republic and the Company as at September 30, 2011, and December 31, 2010 (dollars in thousands):

	Actual			For Capital Adequacy			To be well capitalized		
	Amount	Ratio		Purposes	Ratio		under regulatory capital		
				Amount			guidelines		
						Amount	Ratio		
At September 30, 2011:									
Total risk based capital									
Republic	\$105,854	13.76	%	61,553	8.00	%	\$76,941	10.00	%
Company	107,892	13.97	%	61,782	8.00	%	-	-	
Tier one risk based capital									
Republic	96,202	12.50	%	30,776	4.00	%	46,165	6.00	%
Company	98,205	12.72	%	30,891	4.00	%	-	-	
Tier one leveraged capital									
Republic	96,202	10.46	%	36,787	4.00	%	45,984	5.00	%
Company	98,205	10.66	%	36,840	4.00	%	-	-	
At December 31, 2010:									
Total risk based capital									
Republic	\$97,570	13.51	%	57,775	8.00	%	\$72,218	10.00	%
Company	108,222	14.93	%	57,977	8.00	%	-	-	
Tier one risk based capital									
Republic	88,513	12.26	%	28,887	4.00	%	43,331	6.00	%
Company	99,134	13.68	%	28,988	4.00	%	-	-	
Tier one leveraged capital									
Republic	88,513	9.85	%	35,957	4.00	%	44,946	5.00	%
Company	99,134	11.01	%	36,013	4.00	%	-	-	

See Item 1A. Risk Factors in Part II on Form 10-Q for the quarter ended June 30, 2011 for additional information on capital regulatory ratios.

Dividend Policy

The Company has not paid any cash dividends on its common stock. The Company has no plans to pay cash dividends in 2011. The Company's ability to pay dividends depends primarily on receipt of dividends from the

Company's subsidiary, Republic. Dividend payments from Republic are subject to legal and regulatory limitations. The ability of Republic to pay dividends is also subject to profitability, financial condition, capital expenditures and other cash flow requirements. See Item 1A. Risk Factors in Part II on Form 10-Q for the quarter ended June 30, 2011 for additional information on restrictions on dividends.

Liquidity

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, time investment purchases to market conditions and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. The most liquid assets consist of cash, amounts due from banks and federal funds sold.

Regulatory authorities require the Company to maintain certain liquidity ratios in order for funds to be available to satisfy commitments to borrowers and the demands of depositors. In response to these requirements, the Company has formed an asset/liability committee (ALCO), comprised of certain members of Republic's board of directors and senior management to monitor such ratios. The ALCO committee is responsible for managing the liquidity position and interest sensitivity. That committee's primary objective is to maximize net interest income while configuring Republic's interest-sensitive assets and liabilities to manage interest rate risk and provide adequate liquidity for projected needs. The ALCO committee meets on a quarterly basis or more frequently if deemed necessary.

The Company's target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of interest-earning assets with projected future outflows of deposits and other liabilities. The Company's most liquid assets, comprised of cash and cash equivalents on the balance sheet, totaled \$91.2 million at September 30, 2011, compared to \$35.9 million at December 31, 2010. Loan maturities and repayments are another source of asset liquidity. At September 30, 2011, Republic estimated that more than \$50.0 million of loans would mature or repay in the six-month period ending March 31, 2012. Additionally, the majority of its investment securities are available to satisfy liquidity requirements through sales on the open market or by pledging as collateral to access credit facilities. At September 30, 2011, the Company had outstanding commitments (including unused lines of credit and letters of credit) of \$76.5 million. Certificates of deposit scheduled to mature in one year totaled \$165.4 million at September 30, 2011. The Company anticipates that it will have sufficient funds available to meet its current commitments.

Daily funding requirements have historically been satisfied by generating core deposits and certificates of deposit with competitive rates, buying federal funds or utilizing the credit facilities of the Federal Home Loan Bank System ("FHLB"). The Company has established a line of credit with the FHLB of Pittsburgh. The Company is required to pledge qualified collateral to access its full borrowing capacity which was \$287.2 million at September 30, 2011. As of September 30, 2011 and December 31, 2010, the Company had no outstanding term borrowings with the FHLB. The Company had no short-term borrowings at both September 30, 2011 and December 31, 2010. The Company has also established a contingency line of credit of \$10.0 million with Atlantic Central Bankers Bank ("ACBB") to assist in managing its liquidity position. The Company had no amounts outstanding against the ACBB line of credit at both September 30, 2011 and December 31, 2010.

Investment Securities Portfolio

At September 30, 2011, the Company identified certain investment securities that were being held for indefinite periods of time, including securities that will be used as part of the Company's asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of the Company's asset/liability management. Available for sale securities consist primarily of U.S Government Agency mortgage-backed securities (MBS), agency collateralized mortgage obligations (CMO), municipal securities, corporate bonds and agency pooled trust preferred securities. Available-for-sale securities totaled \$154.3 million and \$143.4 million as of September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 and December 31, 2010, the portfolio had a net unrealized gain of \$683,000 and a net unrealized loss of \$1.7 million, respectively.

Loan Portfolio

The Company's loan portfolio consists of secured and unsecured commercial loans including commercial real estate, construction loans, residential mortgages, automobile loans, home improvement loans, home equity loans and lines of credit, overdraft lines of credit and others. Commercial loans are primarily secured term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Republic's commercial loans typically range between \$250,000 and \$5,000,000 million but customers may borrow significantly larger amounts up to Republic's combined legal lending limit, which was approximately \$16.4 million at September 30, 2011. Individual customers may have several loans often secured by different collateral.

Credit Quality

Republic's written lending policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding, with independent credit department approval for the majority of new loan balances. A committee consisting of senior management and certain members of the board of directors oversees the loan approval process to monitor that proper standards are maintained, while approving the majority of commercial loans.

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of interest or principal for a period of more than 90 days, unless such loans are well-secured and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower, in accordance with the contractual terms.

While a loan is classified as non-accrual or as an impaired loan and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. For non-accrual loans, which have been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

The following summary shows information concerning loan delinquency and non-performing assets at the dates indicated:

(Dollars in thousands)	September 30, 2011	December 31, 2010		
Loans accruing, but past due 90 days or more	\$-	\$-		
Non-accrual loans	32,006	39,992		
Total non-performing loans(1)	32,006	39,992		
Other real estate owned	13,988	15,237		
Total non-performing assets(1)	\$45,994	\$55,229		
Non-performing loans as a percentage of total loans, net of unearned income(1)	5.05	%	6.45	%
Non-performing assets as a percentage of total assets	4.83	%	6.30	%

(1)Non-performing loans are comprised of (i) loans that are on non-accrual basis, (ii) accruing loans that are 90 days or more past due and (iii) restructured loans. Non-performing assets are composed of non-performing loans and other real estate owned.

Non-accrual loans decreased \$8.0 million, or 20%, to \$32.0 million at September 30, 2011, from \$40.0 million at December 31, 2010 as the Company continues to see results from its concentrated effort on the resolution of non-performing assets. Problem loans consist of loans that are included in performing loans, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At September 30, 2011 and December 31, 2010, all identified problem loans are included in the preceding table, or are internally classified with a specific reserve allocation in the allowance for loan losses (see "Allowance for Loan Losses").

Republic had delinquent loans as follows: (i) 30 to 59 days past due, in the aggregate principal amount of \$0 and \$1.7 million at September 30, 2011 and December 31, 2010, respectively; and (ii) 60 to 89 days past due, at September 30, 2011 and December 31, 2010, in the aggregate principal amount of \$9.2 million and \$17.5 million, respectively. The Company had no delinquent loans past due 90 days or more, but still accruing at September 30, 2011. Delinquent loans are currently in the process of collection and management believes they are supported by adequate collateral.

Other Real Estate Owned

The balance of other real estate owned decreased by \$1.2 million to \$14.0 million at September 30, 2011 from \$15.2 million at December 31, 2010 primarily due to write-downs of \$1.3 million during the period.

Allowance for Loan Losses

An analysis of the allowance for loan losses for the nine months ended September 30, 2011 and 2010, and the twelve months ended December 31, 2010 is as follows:

	For the nine months ended September 30, 2011	For the twelve months ended December 31, 2010	For the nine months ended September 30, 2010		
(Dollars in thousands)					
Balance at beginning of period	\$11,444	\$12,841	\$12,841		
Charge offs:					
Commercial	4,746	19,126	19,126		
Consumer	34	42	42		
Total charge offs	4,780	19,168	19,168		
Recoveries:					
Commercial	11	1,168	263		
Consumer	39	3	3		
Total recoveries	50	1,171	266		
Net charge offs	4,730	17,997	18,902		
Provision for loan losses	5,666	16,600	16,950		
Balance at end of period	\$12,380	\$11,444	\$10,889		
Average loans outstanding(1)	\$634,505	\$659,882	\$672,341		
As a percent of average loans:(1)					
Net charge offs	1.00	% 2.73	% 3.76	%	
Provision for loan losses	1.19	% 2.52	% 3.37	%	
Allowance for loan losses	1.95	% 1.73	% 1.62	%	
Allowance for loan losses to:					
Total loans, net of unearned income	1.95	% 1.84	% 1.71	%	
Total non performing loans	38.68	% 28.62	% 22.53	%	

(1) Includes non-accruing loans.

The allowance for loan losses as a percentage of non-performing loans (coverage ratio) increased to 38.7% at September 30, 2011, compared to 28.6% at December 31, 2010 and 22.5% at September 30, 2010. The increase in the coverage ratio during the nine month period ending September 30, 2011 was primarily due to the higher level of charge-offs recorded during 2010. The decrease in charge-offs in 2011 is a result of the continued improvement in credit quality indicators combined with the reduction of impaired loans. Total charge-offs of \$19.2 million were recorded for the year ended December 31, 2010 compared to \$4.8 million for the nine months ended September 30, 2011. Total non-performing loans were \$32.0 million and \$40.0 million at September 30, 2011 and December 31, 2010, respectively.

Non-performing loans reached a peak during the second quarter of 2010 as a result of the challenging economic environment, which caused an increase in loan delinquencies and a significant decline in collateral values mainly impacting our commercial real estate loan portfolio. The increase in charge-offs was a result of economic events that transpired during the year ended December 31, 2010 which were identified by our credit monitoring process. This process assesses the ultimate collectability of an outstanding loan balance from all potential sources. When a loan or portfolio of a loan is determined to be uncollectible it is charged-off against the allowance for loan losses.

The Company evaluates loans for impairment and potential charge-offs on a quarterly basis. Any loan rated as substandard or lower will have a collateral evaluation analysis completed in accordance with the guidance under generally accepted accounting principles (GAAP) on impaired loans to determine if a deficiency exists. We will first evaluate the primary repayment source. If the primary repayment source is seriously inadequate and unlikely to repay the debt, we will then look to the secondary and/or tertiary repayment sources. Secondary sources are conservatively reviewed for liquidation values. Updated appraisals and financial data are obtained to substantiate current values. If the reviewed sources are deemed to be inadequate to cover the outstanding principal and any costs associated with the resolution of the troubled loan, an estimate of the deficient amount will be calculated and a specific allocation of loan loss reserve is recorded.

Unsecured commercial loans and all consumer loans are charged-off immediately upon reaching the 90-day delinquency mark unless they are well secured and in the process of collection. The timing on charge-offs of all other loan types is subjective and will be recognized when management determines that full repayment, either from the cash flow of the borrower, collateral sources, and/or guarantors, will not be sufficient and that repayment is unlikely. A full or partial charge-off is recognized equal to the amount of the estimated deficiency calculation.

Serious delinquency is often the first indicator of a potential charge-off. Reductions in appraised collateral values and deteriorating financial condition of borrowers and guarantors are factors considered when evaluating potential charge-offs. The likelihood of possible recoveries or improvements in a borrower's financial condition are also assessed when considering a charge-off.

Partial charge-offs of non-performing and impaired loans can significantly reduce the coverage ratio and other credit loss statistics due to the fact that the balance of the allowance for loan losses will be reduced while still carrying the remainder of a non-performing loan balance in the impaired loan category. The amount of non-performing loans for which partial charge-offs have been recorded amounted to \$23.9 million at September 30, 2011 compared to \$27.7 million at December 31, 2010.

The Company's charge-off policy is reviewed on an annual basis and updated as necessary. During the nine months ended September 30, 2011, there have been no changes made to this policy.

Recent Accounting Pronouncements

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 effective date of ASU 2011-05 differs for public and nonpublic companies. For public companies, the Update is effective for fiscal years and interim periods beginning after December 31, 2011. For nonpublic entities, the provisions are effective for fiscal years ending after December 31, 2012, and for interim and annual periods thereafter. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

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 IFRSs. 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.

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 effective date of ASU 2011-04 differs for public and nonpublic companies. For public companies, the Update is effective for interim and annual periods beginning after December 15, 2011. For nonpublic entities, the Update is effective for annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

ASU 2011-02

In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The FASB has issued this ASU to clarify the accounting principles applied to loan modifications, as defined by FASB ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors.

The ASU clarifies guidance on a creditor's evaluation of whether or not a concession has been granted, with an emphasis on evaluating all aspects of the modification rather than focus on specific criteria, such as the effective interest rate test, to determine a concession. The ASU goes on to provide guidance on specific types of modifications such as changes in the interest rate of the borrowing, and insignificant delays in payments, as well as guidance on the creditor's evaluation of whether or not a debtor is experiencing financial difficulties.

The effective date of ASU 2011-02 differs for public and nonpublic companies. For public companies, the amendments in the ASU are effective for the first interim or annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

Effects of Inflation

The majority of assets and liabilities of a financial institution are monetary in nature. Therefore, a financial institution differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Management believes that the most significant impact of inflation on its financial results is through the Company's need and ability to react to changes in interest rates. Management attempts to maintain an essentially balanced position between rate sensitive assets and liabilities over a one-year time horizon in order to protect net interest income from being affected by wide interest rate fluctuations.

ITEM 3: QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation in the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC on March 16, 2011.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report (September 30, 2011) ("Disclosure Controls"). Based upon the Disclosure Controls evaluation, the principal executive officer and principal financial officer have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

The principal executive officer and principal financial officer also conducted an evaluation of the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, ("Internal Control") to determine whether any changes in Internal Control occurred during the quarter ended September 30, 2011 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended September 30, 2011.

Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

PART II. OTHER INFORMATION

ITEM 1. 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.

ITEM 1A. RISK FACTORS

Significant risk factors could adversely affect the Company's business, financial condition and results of operation. Risk factors discussing these risks can be found in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and in Part II, "Item 1A. Risk Factors" in the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2011. The risk factors in the Company's Annual Report on Form 10-K and Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011 have not materially changed. You should carefully consider these risk factors. The risks described in the Company's Form 10-K and in the Company's Form 10-Q for the fiscal quarter ended June 30, 2011 are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following Exhibits are filed as part of this report. (Exhibit numbers correspond to the exhibits required by Item 601 of Regulation S-K for quarterly reports on Form 10-Q).

Exhibit Number	Description	Location
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer of Republic First Bancorp, Inc.	<u>Filed</u> <u>herewith</u>
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Republic First Bancorp, Inc.	<u>Filed</u> <u>herewith</u>
32.1	Section 1350 Certification of Harry D. Madonna	<u>Filed</u> <u>herewith</u>
32.2	Section 1350 Certification of Frank A. Cavallaro	<u>Filed</u> <u>herewith</u>
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, (ii) Consolidated Statements of Operations for each of the three and nine months ended September 30, 2011 and 2010, (iii) Consolidated Statements of Cash Flows for each of the nine months ended September 30, 2011 and 2010, (iv) Consolidated Statement of Changes in Shareholders' Equity or each of the nine months ended September 30, 2011 and 2010, and (v) Notes to Consolidated Financial Statements.	*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

REPUBLIC FIRST BANCORP, INC.

Date: November 14, 2011 By: /s/ Harry D. Madonna
Harry D. Madonna
Chairman, President and Chief Executive
Officer
(principal executive officer)

Date: November 14, 2011 By: /s/ Frank A. Cavallaro
Frank A. Cavallaro
Senior Vice President and Chief Financial
Officer
(principal financial and accounting officer)