REPUBLIC FIRST BANCORP INC
Form 10-Q
August 09, 2011

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Act of 1934 For the quarterly period ended June 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 (State or other jurisdiction of incorporation or organization)	23-2486815 (I.R.S. Employer Identification No.)
50 South 16th Street, Philadelphia, Pennsylvania (Address of principal executive offices)	19102 (Zip code)

215-735-4422
Registrant's telephone number, including area code
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

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

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-Accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, $0.01 per share	25,972,897
Title of Class	Number of Shares Outstanding as of August 8, 2011

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARIES
TABLE OF CONTENTS

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

	June 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 10,164	$ 6,146
Interest bearing deposits with banks	12,011	29,620
Federal funds sold	1.457	99
Cash and cash equivalents	23,632	35,865
Investment securities available for sale, at fair value	162,222	143,439
Investment securities held to maturity, at amortized cost (fair value of $146 and $157, respectively)	139	147
Restricted stock, at cost	5,881	6,501
Loans held for sale	5,827	—
Loans receivable (net of allowance for loan losses of $15,108 and $11,444, respectively)	624,280	608,911
Premises and equipment, net	24,342	25,496
Other real estate owned, net	13,109	15,237
Accrued interest receivable	3,129	3,119
Bank owned life insurance	12,621	12,555
Other assets	25,710	24,827
Total Assets	$ 900,892	$ 876,097
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand – non-interest bearing	$ 113,641	$ 128,578
Demand – interest bearing	97,149	66,283
Money market and savings	321,971	329,742
Time Deposits	250,341	233,127
Total Deposits	783,102	757,730
Accrued interest payable	1,431	953
Other liabilities	6,718	6,792
Subordinated debt	22,476	22,476
Total Liabilities	813,727	787,951
Shareholders' Equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized; no shares issued as of June 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 June 30, 2011 and December 31, 2010	265	265

Additional paid in capital	106,192	106,024
Accumulated deficit	(16,128)	(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)	744	(1,095)
Total Shareholders’ Equity	87,165	88,146
Total Liabilities and Shareholders’ Equity	$ 900,892	$ 876,097

(See notes to consolidated financial statements)

1

Republic First Bancorp, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2011 and 2010
(Dollars in thousands, except per share data)
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest income:				
Interest and fees on taxable loans	$ 8,306	$ 8,675	$ 16,449	$ 17,434
Interest and fees on tax-exempt loans	81	-	149	-
Interest and dividends on taxable investment securities	1,122	1,435	2,118	2,977
Interest and dividends on tax-exempt investment securities	114	108	227	222
Interest on federal funds sold and other interest-earning assets	34	16	48	36
Total interest income	9,657	10,234	18,991	20,669
Interest expense:				
Demand- interest bearing	168	125	266	207
Money market and savings	860	912	1,659	1,962
Time deposits	825	1,239	1,546	2,644
Other borrowings	278	447	574	936
Total interest expense	2,131	2,723	4,045	5,749
Net interest income	7,526	7,511	14,946	14,920
Provision for loan losses	1,500	10,750	5,050	16,250
Net interest income (loss) after provision for loan losses	6,026	(3,239)	9,896	(1,330)
Non-interest income:				
Loan advisory and servicing fees	119	96	156	153
Gain on sales of SBA loans	1,657	-	2,354	-
Service fees on deposit accounts	201	251	370	533
Other-than-temporary impairment losses	(4)	355	(4)	(710)
Portion recognized in other comprehensive income (before taxes)	2	(578)	2	338
Net impairment loss on investment securities	(2)	(223)	(2)	(372)
Gain on sale of other real estate owned	-	46	-	246
Bank owned life insurance income	36	51	66	102
Other non-interest income	65	33	259	67
Total non-interest income	2,076	254	3,203	729
Non-interest expenses:				
Salaries and employee benefits	3,807	2,988	7,145	5,918
Occupancy	789	975	1,644	2,496
Depreciation and amortization	533	486	1,061	968
Legal	579	418	874	953
Other real estate owned	65	412	1,424	952
Advertising	85	30	190	95
Data processing	271	235	518	453

Insurance	220	373	437	535
Professional fees	454	379	888	890
Regulatory assessments and costs	560	562	1,043	1,073
Taxes, other	232	217	445	443
Other operating expenses	1,416	878	2,334	1,582
Total non-interest expense	9,011	7,953	18,003	16,358
Loss before benefit for income taxes	(909)	(10,938)	(4,904)	(16,959)
Benefit for income taxes	(429)	(3,883)	(1,916)	(6,042)
Net loss	$ (480)	$ (7,055)	$ (2,988)	$ (10,917)
Net loss per share:				
Basic	$ (0.02)	$ (0.60)	$ (0.12)	$ (0.98)
Diluted	$ (0.02)	$ (0.60)	$ (0.12)	$ (0.98)

(See notes to consolidated financial statements)

2

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net loss	$ (2,988)	$ (10,917)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for loan losses	5,050	16,250
Writedown of other real estate owned	1,118	885
Gain on sale of other real estate owned	-	(246)
Depreciation and amortization	1,061	968
Share based compensation	168	120
Impairment charges on investment securities	2	372
Amortization of premiums/(discounts) on investment securities	45	27
Proceeds from sales of SBA loans	25,895	-
SBA loans originated for sale	(29,368)	-
Gains on sales of SBA loans originated for sale	(2,354)	-
Increase in value of bank owned life insurance	(66)	(102)
Increase in accrued interest receivable and other assets	(1,456)	(4,145)
Increase in accrued interest payable and other liabilities	404	698
Net cash (used in) provided by operating activities	(2,489)	3,910
Cash flows from investing activities:		
Purchase of investment securities available for sale	(24,886)	-
Proceeds from the maturity or call of securities available for sale	8,924	13,384
Proceeds from the maturity or call of securities held to maturity	8	9
Proceeds from redemption of FHLB stock	620	-
Net (increase) decrease in loans	(20,419)	5,252
Net proceeds from sale of other real estate owned	1,010	2,988
Premises and equipment expenditures	(373)	(239)
Net cash (used in) provided by investing activities	(35,116)	21,394
Cash flows from financing activities:		
Net proceeds from stock offering	-	28,100
Net stock purchases for deferred compensation plans	-	(100)
Net increase (decrease) in demand, money market and savings deposits	8,158	(12,045)
Net increase (decrease) in time deposits	17,214	(65,638)
Net decrease in other borrowings	-	(25,000)
Net increase in short term borrowings	-	9,149
Net cash provided by (used in) financing activities	25,372	(65,534)
Net decrease in cash and cash equivalents	(12,233)	(40,230)
Cash and cash equivalents, beginning of year	35,865	55,618

Cash and cash equivalents, end of year	$	23,632	$	15,388
Supplemental disclosures:				
Interest paid	$	3,567	$	5,428
Non-cash transfers from loans to other real estate owned		-		663

(See notes to consolidated financial statements)

3

Republic First Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity
For the Six Months Ended June 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			(2,988)				(2,988)
Other comprehensive gain, net of tax:							
Unrealized gain on securities (pre-tax $2,868)						1,838	1,838
Reclassification adjustment for impairment charge (pre-tax $2)						1	1
							1,839
Total comprehensive loss							(1,149)
Stock based compensation		$ 168					168
BALANCE, JUNE 30, 2011	$ 265	$ 106,192	$ (16,128)	$ (3,099)	$ (809)	$ 744	$ 87,165

	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			(10,917)				(10,917)
Other comprehensive gain, net of tax:							
						1,056	1,056

Unrealized gain on securities (pre-tax $1,648)							
Reclassification adjustment for impairment charge (pre-tax $372)						238	238
							1,294
Total comprehensive loss							(9,623)
Shares issued under common stock offering (15,000,000 shares)	150	27,950					28,100
Stock based compensation	-	120					120
Stock purchases for deferred compensation plan (24,489 shares)					(100)		(100)
BALANCE, JUNE 30, 2010	$ 261	$ 105,156	$ (13,367)	$ (3,099)	$ (809)	$ 619	$ 88,761

(See notes to consolidated financial statements)

4

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

Note 1: Basis of Presentation

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

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

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission ("SEC") Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 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.

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 June 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 six months ended June 30, 2011, 53,500 options vested. No options vested during the six months ended June 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 June 30, 2011, there were 562,700 unvested options with a fair value of $1,235,096 with $640,857 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 823,354 options outstanding was $2,490, while the intrinsic value of the 260,654 exercisable (vested) options was $0.

Compensation expense of $83,000 and $168,000 was recognized during the three and six months ended June 30, 2011, respectively. Compensation expense of $78,000 and $120,000 was recognized during the three and six months ended June 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 trust preferred securities issued in 2008. In the diluted EPS computation, the after tax interest expense on the trust preferred securities issuance is added back to the net income. For the three and six months ended June 30, 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. For the three and six months ended June 30, 2011 and 2010, the Company did not include stock options in calculating diluted EPS due to a net loss from operations.

The calculation of EPS for the three and six months ended June 30, 2011 and 2010 is as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic and diluted earnings per share:				
Net loss	$ (480)	$ (7,055)	$ (2,988)	$ (10,917)
Weighted average shares outstanding	25,973	11,707	25,973	11,142
Net loss per share – basic and diluted	$ (0.02)	$ (0.60)	$ (0.12)	$ (0.98)

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.

8

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.

9

The entity should also disclose information required by ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which had previously been deferred by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, for interim and annual periods beginning on or after June 15, 2011. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

ASU 2010-20
In July 2010, the FASB issued ASU 2010-20, Receivables (Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The FASB believes that this guidance will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures.

This ASU requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. This disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The amendments in this ASU apply to all public and nonpublic entities with financing receivables. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments.

The effective date of ASU 2010-20 differs for public and nonpublic companies. For public companies, the amendments that require disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Note 3: Legal Proceedings

The Company and Republic are from time to time parties (plaintiff or defendant) to lawsuits in the normal course of business. While any litigation involves an element of uncertainty, management, 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 $669,000 income and a $4.5 million loss for the three months ended June 30, 2011 and 2010, respectively. For the six months ended June 30, 2011 and 2010, total comprehensive loss was $1.1 million and $9.6 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 June 30, 2011 and December 31, 2010 is as follows:

	June 30, 2011 Investment Securities Available for Sale			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities/CMOs	$140,791	$4,641	$-	$145,432
Municipal securities	10,725	105	(824)	10,006
Corporate bonds	3,000	-	-	3,000
Pooled Trust Preferred Securities	6,415	-	(2,750)	3,665
Other securities	131	2	(14)	119
Total	$161,062	$4,748	$(3,588)	$162,222

	June 30, 2011 Investment Securities Held to Maturity			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agencies	$2	$-	$-	$2
Other securities	137	7	-	144
Total	$139	$7	$-	$146

	December 31, 2010			
	Investment Securities Available for Sale			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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 June 30, 2011 is as follows:

	June 30, 2011			
	Available for Sale		Held to Maturity	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$-	$-	$-	$-
After 1 year to 5 years	10	10	117	124
After 5 years to 10 years	417	448	2	2
After 10 years	160,635	161,764	-	-
No stated maturity	-	-	20	20
Total	$161,062	$162,222	$139	$146

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

As of June 30, 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 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 June 30, 2011 and December 31, 2010. In addition, the Company does not hold any private issued CMO’s as of June 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. The adoption of updated guidance under ASC 320-10 had an impact on the amount reported in the consolidated financial statements as impairment charges (credit losses) on bank pooled trust preferred securities for the three and six months ended June 30, 2011 in the amount of $2,000 for both periods. The Company realized gross losses due to impairment charges on pooled trust preferred securities of $223,000 and $372,000 for the three and six months ended June 30, 2010, respectively.

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:

At June 30, 2011						
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	$3,238	$106	$3,996	$718	$7,234	$824
Trust Preferred Securities	-	-	3,665	2,750	3,665	2,750
Other securities	-	-	76	14	76	14
Total	$3,238	$106	$7,737	$3,482	$10,975	$3,588

At December 31, 2010						
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed 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 $3.6 million with a total fair value of $11.0 million at June 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 June 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 June 30, 2011, the investment portfolio included twenty-five municipal securities with a total market value of $10.0 million. The securities are reviewed quarterly for impairment. Research on each issuer is completed to ensure the financial stability of the municipal entity. The largest geographic concentration was in California where thirteen municipal securities had a market value of $5.0 million. There were no defaults by any Moody's rated state or local government during the three months ended June 30, 2011. As of June 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 June 30, 2011 and December 31, 2010:

(Dollars in thousands)	June 30, 2011	December 31, 2010
Commercial real estate	$ 388,081	$ 374,935
Construction and land development	67,576	73,795
Commercial and industrial	81,783	78,428
Owner occupied real estate	81,799	70,833
Consumer and other	16,358	17,808
Residential mortgage	4,221	5,026
Total loans receivable	639,818	620,825
Deferred costs (fees)	(430)	(470)
Allowance for loan losses	(15,108)	(11,444)
Net loans receivable	$ 624,280	$ 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 June 30, 2011 and December 31, 2010, management did not identify any troubled debt restructurings in the loan portfolio.

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

(Dollars in thousands)	June 30, 2011	December 31, 2010
Impaired loans without a valuation allowance	$39,937	$72,908
Impaired loans with a valuation allowance	35,361	14,206
Total impaired loans	$75,298	$87,114
Valuation allowance related to impaired loans	$6,044	$2,786
Total nonaccrual loans	37,591	39,992
Total loans past-due ninety days or more and still accruing	1,338	-

Impaired loans with a valuation allowance increased from $14.2 million at December 31, 2010 to $35.4 million at June 30, 2011. The increase was primarily due to valuation allowances which were recorded during the six month period ending June 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 six month period ending June 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 $11.8 million to $75.3 million at June 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 $6.0 million at June 30, 2011.

As of June 30, 2011 and December 31, 2010, the average recorded investment in impaired loans was approximately $81.3 million and $100.3 million, respectively. The Company earned $1.1 million and $2.7 million of interest income on impaired loans (internally classified as accruing loans) for the six months ended June 30, 2011 and the year ended December 31, 2010, respectively. The Company recognized interest income on a cash basis on impaired loans of $1.2 million and $2.9 million during the six months ended June 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 June 30, 2011 and December 31, 2010:

	At June 30, 2011				
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$21,117	$22,519	$-	$32,347	$591
Construction and land development	14,779	26,033	-	16,849	99
Commercial and industrial	1,958	1,958	-	3,468	53
Owner occupied real estate	1,306	1,306	-	1,847	19
Consumer and other	777	1,001	-	694	-
Total	$39,937	$52,817	$-	$55,205	$762
With an allowance recorded:					
Commercial real estate	$20,308	$24,662	$3,079	$12,376	$252
Construction and land development	8,243	9,740	1,104	7,175	21
Commercial and industrial	5,000	6,509	1,528	3,698	11
Owner occupied real estate	1,810	1,810	333	2,882	64
Total	$35,361	$42,721	$6,044	$26,131	$348
Total:					
Commercial real estate	$41,425	$47,181	$3,079	$44,723	$843
Construction and land development	23,022	35,773	1,104	24,024	120
Commercial and industrial	6,958	8,467	1,528	7,166	64
Owner occupied real estate	3,116	3,116	333	4,729	83
Consumer and other	777	1,001	-	694	-
Total	$75,298	$95,538	$6,044	$81,336	$1,110

	At December 31, 2010				
(Dollars in thousands)	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

As of June 30, 2011 and December 31, 2010, there were loans of approximately $37.6 million and $40.0 million, respectively, which were classified as non-accrual. If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately $1.2 million and $2.4 million, for the six months ended June 30, 2011 and the year ended December 31, 2010, respectively. There were loans of approximately $1.3 million past due 90 days and accruing interest at June 30, 2011. There were no loans past due 90 days and accruing interest at December 31, 2010.

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

(Dollars in thousands)	June 30, 2011	December 31, 2010
Balance at beginning of year	$11,444	$12,841
Provision for loan losses	5,050	16,600
Recoveries of loans previously charged off	49	1,171
Loan charge-offs	(1,435)	(19,168)
Balance at end of year	$15,108	$11,444

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

	At June 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 June 30, 2011:								
Beginning balance:	$ 7,407	$ 1,595	$ 2,769	$ 1,645	$ 121	$ 32	$ 881	$14,450
Charge-offs	(512)	(370)	-	-	-	-	-	(882)
Recoveries	-	2	-	-	38	-	-	40
Provisions	1,751	592	(40)	(49)	(35)	1	(720)	1,500
Ending balance	$ 8,646	$ 1,819	$ 2,729	$ 1,596	$ 124	$ 33	$ 161	$15,108
Six Months Ended June 30, 2011:								
Beginning balance:	$ 7,243	$ 837	$ 1,443	$ 1,575	$ 130	$ 41	$ 175	$11,444
Charge-offs	(1,034)	(370)	-	-	(31)	-	-	(1,435)
Recoveries	9	2	-	-	38	-	-	49
Provisions	2,428	1,350	1,286	21	(13)	(8)	(14)	5,050
Ending balance	$ 8,646	$ 1,819	$ 2,729	$ 1,596	$ 124	$ 33	$ 161	$15,108
Ending balance: individually evaluated for impairment	$ 3,079	$ 1,104	$ 1,528	$ 333	$ -	$ -	$ -	$6,044

Ending balance: collectively evaluated for impairment	$ 5,567	$ 715	$ 1,201	$ 1,263	$ 124	$ 33	$ 161	$9,064
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$-

18

At December 31, 2010
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
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 June 30, 2011
Loans Receivable

(Dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
Ending balance	$388,081	$ 67,576	$81,783	$81,799	$16,358	$4,221	$ -	$ 639,818
Ending balance: individually evaluated for impairment	$ 41,425	$ 23,022	$ 6,958	$ 3,116	$ 777	$ -	$ -	$ 75,298
Ending balance: collectively evaluated for impairment	$346,656	$ 44,554	$ 74,825	$78,683	$15,581	$ 4,221	$ -	$ 564,520
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

19

	At December 31, 2010 Loans Receivable							
(Dollars in thousands)	Commercial Real Estate	Construction and Land Development	Commercial and Industrial	Owner Occupied Real Estate	Consumer and Other	Residential Mortgage	Unallocated	Total
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 June 30, 2011 and December 31, 2010:

	At June 30, 2011						
(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	$-	$8,556	$17,808	$26,364	$361,717	$388,081	$1,338
Construction and land development	-	-	18,214	18,214	49,362	67,576	-
Commercial and industrial	-	-	1,342	1,342	80,441	81,783	-
Owner occupied real estate	-	1,239	788	2,027	79,772	81,799	-
Consumer and other	-	12	777	789	15,569	16,358	-
Residential mortgage	-	-	-	-	4,221	4,221	-
Total	$-	$9,807	$38,929	$48,736	$591,082	$639,818	$1,338

20

	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 June 30, 2011 and December 31, 2010:

	At June 30, 2011				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	$316,690	$14,852	$ 56,539	$-	$388,081
Construction and land development	39,490	-	28,086	-	67,576
Commercial and industrial	75,909	1,857	4,017	-	81,783
Owner occupied real estate	77,569	287	3,943	-	81,799
Consumer and other	15,256	-	1,102	-	16,358
Residential mortgage	4,221	-	-	-	4,221
Total	$529,135				