

Bancorp, Inc.  
Form 10-Q  
May 10, 2018

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 EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2018

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

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

23-3016517  
(IRS Employer Identification No.)

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer   
Smaller reporting company       Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

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

As of May 4, 2018, there were 56,307,238 outstanding shares of common stock, \$1.00 par value.



THE BANCORP, INC

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (unaudited) (in thousands)	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 1,999	\$ 3,152
Interest earning deposits at Federal Reserve Bank	508,847	841,471
Securities purchased under agreements to resell	64,312	64,312
Total cash and cash equivalents	575,158	908,935
Investment securities, available-for-sale, at fair value	1,381,020	1,294,484
Investment securities, held-to-maturity (fair value \$85,949 and \$85,345, respectively)	86,370	86,380
Commercial loans held for sale	349,806	503,316
Loans, net of deferred loan fees and costs	1,463,064	1,392,228
Allowance for loan and lease losses	(7,285)	(7,096)
Loans, net	1,455,779	1,385,132
Federal Home Loan Bank and Atlantic Central Bankers Bank stock	991	991
Premises and equipment, net	19,052	20,051
Accrued interest receivable	11,778	10,900
Intangible assets, net	4,995	5,377
Other real estate owned	405	450
Deferred tax asset, net	38,139	34,802
Investment in unconsolidated entity, at fair value	70,016	74,473
Assets held for sale from discontinued operations	289,038	304,313
Other assets	86,553	78,543
Total assets	\$ 4,369,100	\$ 4,708,147
<b>LIABILITIES</b>		
Deposits		
Demand and interest checking	\$ 3,461,881	\$ 3,806,965
Savings and money market	493,288	453,877
Total deposits	3,955,169	4,260,842

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Securities sold under agreements to repurchase	182	217
Subordinated debentures	13,401	13,401
Long-term borrowings	42,157	42,323
Other liabilities	28,299	67,215
Total liabilities	4,039,208	4,383,998
<b>SHAREHOLDERS' EQUITY</b>		
Common stock - authorized, 75,000,000 shares of \$1.00 par value; 56,307,088 and 55,861,150 shares issued at March 31, 2018 and December 31, 2017, respectively	56,307	55,861
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	363,605	363,196
Accumulated deficit	(75,345)	(89,485)
Accumulated other comprehensive loss	(13,809)	(4,557)
Total shareholders' equity	329,892	324,149
Total liabilities and shareholders' equity	\$ 4,369,100	\$ 4,708,147

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

## THE BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended March 31,	
	2018	2017
	(in thousands, except per share data)	
Interest income		
Loans, including fees	\$ 23,302	\$ 17,629
Interest on investment securities:		
Taxable interest	9,699	9,005
Tax-exempt interest	60	72
Federal funds sold/securities purchased under agreements to resell	414	227
Interest earning deposits	1,832	1,516
	35,307	28,449
Interest expense		
Deposits	4,969	3,434
Short-term borrowings	104	-
Subordinated debenture	160	138
	5,233	3,572
Net interest income	30,074	24,877
Provision for loan and lease losses	700	1,000
Net interest income after provision for loan and lease losses	29,374	23,877
Non-interest income		
Service fees on deposit accounts	1,576	1,675
Card payment and ACH processing fees	1,692	1,528
Prepaid card fees	14,282	13,547
Gain on sale of loans	11,729	5,383
Gain on sale of investment securities	26	503
Change in value of investment in unconsolidated entity	(1,171)	(19)
Leasing income	487	551
Affinity fees	102	1,021
Other	372	30
Total non-interest income	29,095	24,219
Non-interest expense		
Salaries and employee benefits	21,073	18,006
Depreciation and amortization	1,031	1,206

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Rent and related occupancy cost	1,359		1,461	
Data processing expense	2,005		3,480	
Printing and supplies	189		505	
Audit expense	469		421	
Legal expense	2,431		1,738	
Amortization of intangible assets	383		379	
Losses on sale and write downs on other real estate owned	45		-	
FDIC insurance	2,219		2,065	
Software	3,291		3,228	
Insurance	621		678	
Telecom and IT network communications	326		592	
Consulting	665		534	
Civil money penalty	(290)		-	
Other	3,232		3,490	
Total non-interest expense	39,049		37,783	
Income from continuing operations before income taxes	19,420		10,313	
Income tax expense	5,399		4,011	
Net income from continuing operations	\$	14,021	\$	6,302
Discontinued operations				

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Income from discontinued operations before income taxes	156		2,667	
Income tax expense	37		1,006	
Income from discontinued operations, net of tax	119		1,661	
Net income available to common shareholders	\$	14,140	\$	7,963
Net income per share from continuing operations - basic	\$	0.25	\$	0.11
Net income per share from discontinued operations - basic	\$	-	\$	0.03
Net income per share - basic	\$	0.25	\$	0.14
Net income per share from continuing operations - diluted	\$	0.25	\$	0.11
Net income per share from discontinued operations - diluted	\$	-	\$	0.03
Net income per share - diluted	\$	0.25	\$	0.14

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

## THE BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the three months ended March 31,	
	2018	2017
	(in thousands)	
Net income	\$ 14,140	\$ 7,963
Other comprehensive income net of reclassifications into net income:		
Other comprehensive income (loss)		
Change in net unrealized gain (loss) during the period	(12,658)	4,273
Reclassification adjustments for gains included in income	(26)	(503)
Amortization of losses previously held as available-for-sale	10	9
Net unrealized gain (loss)	(12,674)	3,779
Deferred tax expense		
Securities available-for-sale:		
Change in net unrealized gain (loss) during the period	(3,418)	1,709
Reclassification adjustments for gains included in income	(7)	(201)
Amortization of losses previously held as available-for-sale	3	4
Income tax (benefit) expense related to items of other comprehensive income	(3,422)	1,512
Other comprehensive income (loss) net of tax and reclassifications into net income	(9,252)	2,267
Comprehensive income	\$ 4,888	\$ 10,230

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



## THE BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended March 31, 2018  
(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total
Balance at January 1, 2018	55,861,150	\$ 55,861	\$ (866)	\$ 363,196	\$ (89,485)	\$ (4,557)	\$ 324,1
Net income	-	-	-	-	14,140	-	14,140
Common stock issued from option exercises, net of tax benefits	12,594	13	-	99	-	-	112
Common stock issued from restricted shares, net of tax benefits	433,344	433	-	(433)	-	-	-
Stock-based compensation	-	-	-	743	-	-	743
Other comprehensive loss net of reclassification adjustments and tax	-	-	-	-	-	(9,252)	(9,252)
Balance at March 31, 2018	56,307,088	\$ 56,307	\$ (866)	\$ 363,605	\$ (75,345)	\$ (13,809)	\$ 329,8

The accompanying notes are an integral part of this consolidated statement.



## THE BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31,	
	2018	2017
	(in thousands)	
Operating activities		
Net income from continuing operations	\$ 14,021	\$ 6,302
Net income from discontinued operations	119	1,661
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,414	1,585
Provision for loan and lease losses	700	1,000
Net amortization of investment securities discounts/premiums	3,580	2,219
Stock-based compensation expense	743	775
Loans originated for sale	(152,574)	(100,618)
Sale of loans originated for resale	316,124	24,974
Gain on sales of loans originated for resale	(11,661)	(5,383)
Gain on sale of fixed assets	-	(13)
Fair value adjustment on investment in unconsolidated entity	1,171	(19)
Writedown of other real estate	45	-
Change in fair value loans held for sale	1,455	155
Change in fair value of derivatives	(1,524)	(450)
Gain on sales of investment securities	(26)	(503)
Decrease (increase) in accrued interest receivable	(878)	293
Increase in other assets	(8,011)	(5,033)
Change in fair value discontinued loans held for sale	960	-
Decrease (increase) in discontinued assets held for sale	(263)	5,102
Increase (decrease) in other liabilities	(22,357)	1,778
Net cash provided by (used in) operating activities	143,038	(66,175)
Investing activities		
Purchase of investment securities available-for-sale	(157,980)	(36,693)
Proceeds from sale of investment securities available-for-sale	-	30,374
Proceeds from redemptions and prepayments of securities available-for-sale	40,276	41,127
Net increase in loans	(71,379)	(41,254)
Net decrease in discontinued loans held for sale	14,578	14,323
Proceeds from sale of fixed assets	-	132
Purchases of premises and equipment	-	(193)

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Investment in unconsolidated entity	3,286	967
Net cash (used in) provided by investing activities	(171,219)	8,783
Financing activities		
Net decrease in deposits	(305,673)	(202,505)
Net decrease in securities sold under agreements to repurchase	(35)	(1)
Common stock issuance expense	-	(200)
Proceeds from the issuance of common stock	112	-
Net cash used in financing activities	(305,596)	(202,706)
Net decrease in cash and cash equivalents	(333,777)	(260,098)
Cash and cash equivalents, beginning of period	908,935	999,059
Cash and cash equivalents, end of period	\$ 575,158	\$ 738,961
Supplemental disclosure:		
Interest paid	\$ 5,114	\$ 3,566
Taxes paid	\$ 40	\$ 35

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

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Structure of Company

The Bancorp, Inc. (the Company) is a Delaware corporation and a registered financial holding company. Its primary subsidiary is The Bancorp Bank (the Bank) which is wholly owned by the Company. The Bank is a Delaware chartered commercial bank located in Wilmington, Delaware and is a Federal Deposit Insurance Corporation (FDIC) insured institution. In its continuing operations, the Bank has four primary lines of specialty lending: securities-backed lines of credit (SBLOC), vehicle fleet and other equipment leasing, Small Business Administration (SBA) loans and commercial mortgage-backed loans (CMBS) generated for sale into commercial mortgage-backed securities markets primarily through securitizations. Through the Bank, the Company also provides banking services nationally, which include prepaid card accounts, private label banking, institutional banking, card payment and other payment processing.

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

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of March 31, 2018 and for the three month periods ended March 31, 2018 and 2017, are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. However, in the opinion of management, these interim financial statements include all necessary adjustments to fairly present the results of the interim periods presented. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Form 10-K Report). The results of operations for the three month period ended March 31, 2018 may not necessarily be indicative of the results of operations for the full year ending December 31, 2018.

Revenue Recognition

The Company recognizes revenue when the performance obligations related to the transfer of goods or services under the terms of a contract are satisfied. Some obligations are satisfied at a point in time while others are satisfied over a period of time. Revenue is recognized as the amount of consideration to which the Company expects to be entitled to in exchange for transferring goods or services to a customer. When consideration includes a variable component, the amount of consideration attributable to variability is included in the transaction price only to the extent it is probable that significant revenue recognized will not be reversed when uncertainty associated with the variable consideration is subsequently resolved. The Company's contracts generally do not contain terms that require significant judgement to



determine the variability impacting the transaction price.

A performance obligation is deemed satisfied when the control over goods or services is transferred to the customer. Control is transferred to a customer either at a point in time or over time. To determine when control is transferred at a point in time, the Company considers indicators, including but not limited to the right to payment for the asset, transfer of significant risk and rewards of ownership of the asset and acceptance of the asset by the customer. When control is transferred over a period of time, for different performance obligations, either the input or output method is used to measure progress for the transfer. The measure of progress used to assess completion of the performance obligation varies between performance obligations and may be based on time throughout the period of service or on the value of goods and services transferred to the customer. As each distinct service or activity is performed, the Company transfers control to the customer based on the services performed as the customer simultaneously receives the benefits of those services. This timing of revenue recognition aligns with the resolution of any uncertainty related to variable consideration. Costs incurred to obtain a revenue producing contract generally are expensed when incurred as a practical expedient as the contractual period for the majority of contracts is one year or less. The Company's revenue streams that are in scope include prepaid card, card payment, ACH and deposit processing and other fees. The fees on those revenue streams are generally assessed and collected as the transaction occurs, or on a monthly or quarterly basis. The Company has completed its review of the contracts and other agreements that are within scope of revenue guidance and did not identify any material changes to the timing or amount of revenue recognition. The Company's accounting policies did not change materially since the principles of revenue recognition in the ASU are largely consistent with current practices applied by the Company. The vast majority of the Company's services related to its revenues are performed, earned and recognized monthly.

Prepaid card fees primarily include fees for services related to reconciliation, fraud detection, regulatory compliance and other services which are performed and earned daily or monthly and are also billed and collected on a monthly basis. Accordingly, there is no significant component of the services the Company performs or related revenues which are deferred. The Company earns transactional and/or interchange fees on prepaid card accounts when transactions occur and revenue is billed and collected monthly or quarterly. Certain volume or transaction based interchange expenses paid to payment networks such as Visa, reduce revenue which is presented net on the income statement. Card payment and ACH processing fees include transaction fees earned for processing merchant transactions. Revenue is recognized when a cardholder's transaction is approved and settled, or monthly. ACH processing fees are earned on a per item basis as the transactions are processed for third party clients and are also billed and collected monthly. Service charges on deposit accounts include fees and other charges the Company receives to provide various services, including but not limited to, account maintenance, check writing, wire transfer and other services normally associated with deposit accounts. Revenue for these services is recognized monthly as the services are performed. The Company's customer contracts do not typically have performance obligations and fees are collected and earned when the transaction occurs. The Company may, from time to time, waive certain fees for customers but generally does not reduce the transaction price to reflect variability for future reversals due to the insignificance of the amounts. Waiver of fees reduces the revenue in the period the waiver is granted to the customer.

### Note 3. Stock-based Compensation

The Company recognizes compensation expense for stock options in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, "Stock Based Compensation". The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is typically the vesting period. For grants subject to a service condition, the Company utilizes the Black-Scholes option-pricing model to estimate the fair value of each option on the date of grant. The Black-Scholes model takes into consideration the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, the expected dividends on the stock and the current risk-free interest rate for the expected life of the option. The Company's estimate of the fair value of a stock option is based on expectations derived from historical experience and may not necessarily equate to its market value when fully vested. In accordance with ASC 718, the Company estimates the number of options for which the requisite service is expected to be rendered. At March 31, 2018, the Company had two active stock-based compensation plans, which are more fully described in its 2017 Form 10-K Report.

The Company did not grant stock options during the three month period ended March 31, 2018 or 2017. There were 15,000 common stock options exercised in the three month period ended March 31, 2018. There were no common stock options exercised in the three month period ended March 31, 2017.

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

	Shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2018	1,452,625	\$ 8.30	4.64	\$ -
Granted	-	-	-	-
Exercised	(15,000)	9.13	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Outstanding at March 31, 2018	1,437,625	\$ 8.29	4.40	\$ 3,608,029
Exercisable at March 31, 2018	1,201,375	\$ 8.56	3.67	\$ 2,685,754

The Company did not grant restricted stock units (RSUs) in the first three months of 2018. In the first three months of 2017, the Company granted 799,559 restricted RSUs of which 664,559 had a vesting period of three years and 135,000 had a vesting period of one year. All the RSUs granted in the first quarter of 2017 had a fair value of \$5.06 at issuance.

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A summary of the status of the Company's RSUs is presented below.

	Shares	Weighted average grant date fair value	Average remaining contractual term (years)
Outstanding at January 1, 2018	1,264,454	\$ 5.49	1.67
Granted	-	-	
Vested	(433,344)	4.94	
Forfeited	-	-	
Outstanding at March 31, 2018	831,110	\$ 5.78	1.64

As of March 31, 2018, there was a total of \$4.3 million of unrecognized compensation cost related to unvested awards under share-based plans. This cost is expected to be recognized over a weighted average period of approximately 1.7 years. Related compensation expense for the three months ended March 31, 2018 and 2017 was \$743,000 and \$775,000, respectively. The total intrinsic value of options that were exercised and restricted units which vested during the first three months of 2018 and 2017 was \$4.6 million and \$2.4 million, respectively. The total issuance date fair value of RSUs vested and options exercised during the three months ended March 31, 2018 and 2017 was \$2.1 million and \$1.9 million, respectively.

Note 4. Earnings Per Share

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

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

For the three months ended March 31, 2018		
Income (numerator)	Shares (denominator)	Per share amount

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	(dollars in thousands except share and per share data)			
Basic earnings per share from continuing operations				
Net earnings available to common shareholders	\$	14,021	56,141,830	\$ 0.25
Effect of dilutive securities				
Common stock options	-		881,291	-
Diluted earnings per share				
Net earnings available to common shareholders	\$	14,021	57,023,121	\$ 0.25

	For the three months ended March 31, 2018			
	Income (numerator)	Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)			
Basic earnings per share from discontinued operations				
Net earnings available to common shareholders	\$	119	56,141,830	\$ -
Effect of dilutive securities				
Common stock options	-		881,291	-
Diluted earnings per share				
Net earnings available to common shareholders	\$	119	57,023,121	\$ -

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For the three months ended  
March 31, 2018

Income	Shares	Per share
(numerator)	(denominator)	amount

(dollars in thousands except share and  
per share data)

Basic earnings per share

Net earnings available to common shareholders