Bancorp, Inc.
Form 10-Q
August 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2016

OR

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

For the transition period from: _____ to _____

Commission file number: 51018

THE BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	23-3016517
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

Yes [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 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.

(Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

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

As of July 31, 2016 there were 37,945,323 outstanding shares of common stock, $1.00 par value.

THE BANCORP, INC

Form 10-Q Index

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

THE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (unaudited) (in thousands)	December 31, 2015
ASSETS		
Cash and cash equivalents		
Cash and due from banks	$ 4,006	$ 7,643
Interest earning deposits at Federal Reserve Bank	528,094	1,147,519
Securities purchased under agreements to resell	39,360	-
Total cash and cash equivalents	571,460	1,155,162
Investment securities, available-for-sale, at fair value	1,328,693	1,070,098
Investment securities, held-to-maturity (fair value $91,467 and $91,599, respectively)	93,537	93,590
Commercial loans held for sale	441,593	489,938
Loans, net of deferred loan fees and costs	1,182,106	1,078,077
Allowance for loan and lease losses	(5,398)	(4,400)
Loans, net	1,176,708	1,073,677
Federal Home Loan Bank and Atlantic Community Bancshares stock	12,289	1,062
Premises and equipment, net	22,429	21,631
Accrued interest receivable	10,271	9,471
Intangible assets, net	6,074	4,929
Deferred tax asset, net	28,870	36,207
Investment in unconsolidated entity, at fair value	162,275	178,520
Assets held for sale from discontinued operations	487,373	583,909
Other assets	60,203	47,629
Total assets	$ 4,401,775	$ 4,765,823
LIABILITIES		
Deposits		
Demand and interest checking	$ 3,569,669	$ 3,602,376
Savings and money market	389,851	383,832
Time deposits	101,160	428,549
Total deposits	4,060,680	4,414,757

Securities sold under agreements to repurchase	318	925
Subordinated debenture	13,401	13,401
Other liabilities	37,094	16,739
Total liabilities	4,111,493	4,445,822
SHAREHOLDERS' EQUITY		
Common stock - authorized, 75,000,000 shares of $1.00 par value; 37,945,238 and 37,861,218 shares issued at June 30, 2016 and December 31, 2015, respectively	37,945	37,861
Treasury stock, at cost (100,000 shares)	(866)	(866)
Additional paid-in capital	301,680	300,549
Accumulated deficit	(57,721)	(15,449)
Accumulated other comprehensive income (loss)	9,244	(2,094)
Total shareholders' equity	290,282	320,001
Total liabilities and shareholders' equity	$ 4,401,775	$ 4,765,823

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

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THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	(in thousands, except per share data)			
Interest income				
Loans, including fees	$ 15,362	$ 11,534	$ 31,231	$ 22,231
Interest on investment securities:				
Taxable interest	7,900	5,006	14,432	10,066
Tax-exempt interest	176	3,117	497	6,291
Federal funds sold/securities purchased under agreements to resell	128	158	155	322
Interest earning deposits	378	557	1,280	1,179
	23,944	20,372	47,595	40,089
Interest expense				
Deposits	2,815	3,215	5,786	6,314
Securities sold under agreements to repurchase	1	4	1	13
Short-term borrowings	110	-	110	-
Subordinated debenture	128	116	252	211
	3,054	3,335	6,149	6,538
Net interest income	20,890	17,037	41,446	33,551
Provision for loan and lease losses	1,060	510	1,060	1,175
Net interest income after provision for loan and lease losses	19,830	16,527	40,386	32,376
Non-interest income				
Service fees on deposit accounts	978	1,900	1,825	3,660
Card payment and ACH processing fees	1,457	1,496	2,724	2,749
Prepaid card fees	13,510	11,128	27,084	24,260
Gain (loss) on sale of loans	1,339	5,901	(94)	7,577
Gain on sale of investment securities	124	193	2,150	273
Change in value of investment in unconsolidated entity	(13,936)	1,056	(13,124)	2,101

Leasing income	464	656	868	1,175
Debit card income (loss)	(65)	471	(157)	931
Affinity fees	1,322	896	2,416	1,308
Other	4,347	1,027	4,536	1,467
Total non-interest income	9,540	24,724	28,228	45,501
Non-interest expense				
Salaries and employee benefits	21,308	17,384	40,892	32,909
Depreciation and amortization	1,271	1,195	2,510	2,397
Rent and related occupancy cost	1,371	1,401	2,830	2,786
Data processing expense	3,730	3,760	7,690	6,988
Printing and supplies	826	568	1,369	1,183
Audit expense	245	773	500	1,199
Legal expense	2,223	648	2,972	2,053
Amortization of intangible assets	344	298	638	595
FDIC insurance	2,332	2,753	4,682	5,606
Software	2,818	1,523	4,986	2,873
Insurance	554	501	1,064	959
Telecom and IT network communications	587	412	965	962
Securitization and servicing expense	178	373	747	852
Consulting	836	732	2,513	2,220
Bank Secrecy Act and lookback consulting expenses	13,421	9,212	27,736	14,956
Other	5,092	4,901	10,180	8,756
Total non-interest expense	57,136	46,434	112,274	87,294
Loss from continuing operations before income taxes	(27,766)	(5,183)	(43,660)	(9,417)
Income tax benefit	(10,004)	(2,684)	(15,276)	(5,111)

Net loss from continuing operations	$	(17,762)	$	(2,499)	$	(28,384)	$	(4,306)
Discontinued operations								
Income (loss) from discontinued operations before income taxes	(16,214)		4,097		(16,583)		7,196	
Income tax provision (benefit)	(2,616)		1,424		(2,695)		2,502	
Income (loss) from discontinued operations, net of tax	(13,598)		2,673		(13,888)		4,694	
Net income (loss) available to common shareholders	$	(31,360)	$	174	$	(42,272)	$	388
Net loss per share from continuing operations - basic	$	(0.47)	$	(0.07)	$	(0.75)	$	(0.11)
Net income (loss) per share from discontinued operations - basic	$	(0.36)	$	0.07	$	(0.37)	$	0.12
Net income (loss) per share - basic	$	(0.83)	$	-	$	(1.12)	$	0.01
Net loss per share from continuing operations - diluted	$	(0.47)	$	(0.07)	$	(0.75)	$	(0.11)
Net income (loss) per share from discontinued operations - diluted	$	(0.36)	$	0.07	$	(0.37)	$	0.12
Net income (loss) per share - diluted	$	(0.83)	$	-	$	(1.12)	$	0.01

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

THE BANCORP INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended June 30, 2016 (in thousands)	2015
Net income (loss)		
Other comprehensive income (loss) net of reclassifications into net income:	$ (42,272)	$ 388
Other comprehensive income (loss)		
Change in net unrealized gain (loss) during the period	20,472	(6,512)
Reclassification adjustments for losses included in income	(2,150)	(80)
Reclassification adjustments for foreign currency translation (gains)/losses	335	(449)
Amortization of losses previously held as available-for-sale	17	56
Net unrealized gain (loss)	18,674	(6,985)
Deferred tax expense		
Securities available-for-sale:		
Change in net unrealized gain during the period	8,189	(2,279)
Reclassification adjustments for losses included in income	(860)	(28)
Amortization of losses previously held as available-for-sale	7	19
Income tax expense (benefit) related to items of other comprehensive income	7,336	(2,288)
Other comprehensive income (loss) net of tax and reclassifications into net income	11,338	(4,697)
Comprehensive loss	$ (30,934)	$ (4,309)

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 six months ended June 30, 2016

(in thousands, except share data)

	Common stock shares	Common stock	Treasury stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
Balance at January 1, 2016	37,861,218	$ 37,861	$ (866)	$ 300,549	$ (15,449)	$ (2,094)	$ 320,
Net loss					(42,272)		(42,272)
Common stock issued as restricted shares, net of tax benefits	84,020	84	- -	(84)	-		-
Stock-based compensation	-	-	-	1,215	-	-	1,215
Other comprehensive income net of reclassification adjustments and tax	-	-	-	-	-	11,338	11,338
Balance at June 30, 2016	37,945,238	$ 37,945	$ (866)	$ 301,680	$ (57,721)	$ 9,244	$ 290,

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

THE BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended June 30, 2016	2015
	(in thousands)	
Operating activities		
Net loss from continuing operations	$ (28,384)	$ (4,306)
Net income (loss) from discontinued operations	(13,888)	4,694
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,148	2,992
Provision for loan and lease losses	1,060	1,175
Net amortization of investment securities discounts/premiums	4,033	7,033
Stock-based compensation expense	1,215	1,040
Loans originated for sale	(263,473)	(265,021)
Sale of loans originated for resale	311,912	205,177
Gain on sales of loans originated for resale	(94)	(7,577)
Loss (gain) on sale of fixed assets	44	(10)
Fair value adjustment on investment in unconsolidated entity	14,932	-
Gain on sales of investment securities	(2,150)	(273)
Increase in accrued interest receivable	(800)	(275)
(Increase) decrease in other assets	(25,248)	1,612
Increase in discontinued assets held for sale	(1,145)	(19,264)
Increase (decrease) in other liabilities	23,082	(2,654)
Net cash provided by (used in) operating activities	24,244	(75,657)
Investing activities		
Purchase of investment securities available-for-sale	(422,166)	(54,565)
Proceeds from sale of investment securities available-for-sale	84,245	58,666
Proceeds from redemptions and prepayments of securities held-to-maturity	28	90
Proceeds from redemptions and prepayments of securities available-for-sale	93,081	106,071
Net increase in loans	(104,091)	(93,901)
Net decrease in discontinued loans held for sale	97,680	255,723
Proceeds from sale of fixed assets	210	166
Purchases of premises and equipment	(3,562)	(4,127)

Investment in unconsolidated entity	1,313	6,409
Net cash (used in) provided by investing activities	(253,262)	274,532
Financing activities		
Net decrease in deposits	(354,077)	(305,727)
Net decrease in securities sold under agreements to repurchase	(607)	(17,057)
Net cash used in financing activities	(354,684)	(322,784)
Net decrease in cash and cash equivalents	(583,702)	(123,909)
Cash and cash equivalents, beginning of period	1,155,162	1,114,235
Cash and cash equivalents, end of period	$ 571,460	$ 990,326
Supplemental disclosure:		
Interest paid	$ 6,290	$ 2,309
Taxes paid	$ 585	$ 177

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

THE BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLDIATED FINANCIAL STATEMENTS

Note 1. Structure of Company

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

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

Note 2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Company, as of June 30, 2016 and for the three and six month periods ended June 30, 2016 and 2015, 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, 2015 (2015 Form 10-K Report). Note T in those financial statements presents restated interim financial statements as described therein. The results of operations for the six month period ended June 30, 2016 may not necessarily be indicative of the results of operations for the full year ending December 31, 2016.

Note 3. Share-based Compensation

The Company recognizes compensation expense for stock options in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, "Stock Based Compensation". The expense of the option is generally measured at fair value at the grant date with compensation expense recognized over the service period, which is 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 June 30, 2016, the Company had three stock-based compensation plans, which are more fully described in its 2015 Form 10-K Report.

The Company granted 300,000 stock options with a vesting period of four years in the first six months of 2016. The weighted average grant-date fair value was $2.89. The Company did not grant stock options in the first six months of 2015. There were no stock options exercised in the six month period ended June 30, 2016 or June 30, 2015.

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, 2016	1,977,500	$	8.58	5.47	$	-
Granted	300,000	6.75		3.92	-	
Exercised	-	-		-	-	
Expired	(1,000)	20.98		-	-	
Forfeited	-	-		-	-	
Outstanding at June 30, 2016	2,276,500	$	8.34	5.62	$	-
Exercisable at June 30, 2016	1,901,500	$	8.52	4.88	$	-

The Company granted 789,000 restricted stock units (RSUs) in the first six months of 2016 of which 620,000 have a vesting period of three years and 169,000 have a vesting period of one year. 489,000 RSUs have a fair value of $4.50 and 300,000 RSUs have a fair value of $6.75. The Company granted 86,992 RSUs with a vesting period of two years at a fair value of $9.11 in the first six months of 2015. The total fair value of RSUs vested for the six months ended June 30, 2016 and 2015 was $830,000 and $517,000, respectively.

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, 2016	168,045	$	9.88	1.12	
Granted	789,000	5.36		2.43	
Vested	(84,020)	9.88			-
Forfeited	-		-		-
Outstanding at June 30, 2016	873,025	$	5.79	2.12	

As of June 30, 2016, there was a total of $5.2 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 two years. Related compensation expense for the six months ended June 30, 2016 and 2015 was $1.2 million and $1.0 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 June 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from continuing operations			
Net loss available to common shareholders	$ (17,762)	37,845,250	$ (0.47)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	$ (17,762)	37,845,250	$ (0.47)

	For the three months ended June 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share from discontinued operations			
Net loss available to common shareholders	$ (13,598)	37,845,250	$ (0.36)
Effect of dilutive securities			
Common stock options	-	-	-
Diluted loss per share			
Net loss available to common shareholders	$ (13,598)	37,845,250	$ (0.36)

	For the three months ended June 30, 2016		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic loss per share			

Net loss available to common shareholders	$	(31,360)	37,845,250	$	(0.83)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(31,360)	37,845,250	$	(0.83)

Stock options for 2,276,500 shares, exercisable at prices between $6.75 and $25.43 per share, were outstanding at June 30, 2016, but were not included in the dilutive shares because the Company had a net loss available to common shareholders.

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	For the six months ended June 30, 2016				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic loss per share from continuing operations					
Net loss available to common shareholders	$	(28,384)	37,824,996	$	(0.75)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(28,384)	37,824,996	$	(0.75)

	For the six months ended June 30, 2016				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic loss per share from discontinued operations					
Net loss available to common shareholders	$	(13,888)	37,824,996	$	(0.37)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(13,888)	37,824,996	$	(0.37)

	For the six months ended June 30, 2016				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic loss per share					
Net loss available to common shareholders	$	(42,272)	37,824,996	$	(1.12)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted loss per share					
Net loss available to common shareholders	$	(42,272)	37,824,996	$	(1.12)

Stock options for 2,276,500 shares, exercisable at prices between $6.75 and $25.43 per share, were outstanding at June 30, 2016, but were not included in the dilutive shares because the Company had a net loss available to common shareholders.

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

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

	For the three months ended June 30, 2015				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic earnings (loss) per share					
Net income (loss) available to common shareholders	$	174	37,758,249	$	-
Effect of dilutive securities					
Common stock options	-		394,894	-	
Diluted earnings (loss) per share					
Net income (loss) available to common shareholders	$	174	38,153,143	$	-

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

	For the six months ended June 30, 2015				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic earnings (loss) per share from continuing operations					
Net income (loss) available to common shareholders	$	(4,306)	37,751,969	$	(0.11)
Effect of dilutive securities					
Common stock options	-		-	-	
Diluted income (loss) per share					

Net income (loss) available to common shareholders	$	(4,306)	37,751,969	$	(0.11)

	For the six months ended June 30, 2015				
	Income (numerator)		Shares (denominator)	Per share amount	
	(dollars in thousands except share and per share data)				
Basic earnings (loss) per share from discontinued operations					
Net income (loss) available to common shareholders	$	4,694	37,751,969	$	0.12
Effect of dilutive securities					
Common stock options	-		894,248	-	
Diluted income (loss) per share					
Net income (loss) available to common shareholders	$	4,694	38,646,217	$	0.12

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	For the six months ended June 30, 2015 (restated)		
	Income (numerator)	Shares (denominator)	Per share amount
	(dollars in thousands except share and per share data)		
Basic earnings (loss) per share			
Net income (loss) available to common shareholders	$ 388	37,751,969	$ 0.01
Effect of dilutive securities			
Common stock options	-	-	-
Diluted earnings (loss) per share			
Net income (loss) available to common shareholders	$ 388	37,751,969	$ 0.01

Stock options for 887,000 shares exercisable at prices between $9.82 and $25.43 per share, were outstanding at June 30, 2015 but were not included in dilutive shares because the exercise price per share was greater than the average market price.

Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of the Company's investment securities classified as available-for-sale and held-to-maturity at June 30, 2016 and December 31, 2015 are summarized as follows (in thousands):

Available-for-sale	June 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$ 27,078	$ 242	$ (64)	$ 27,256
Federally insured student loan securities	129,745	12	(3,361)	126,396
Tax-exempt obligations of states and political subdivisions	52,812	543	(27)	53,328
Taxable obligations of states and political subdivisions	85,498	6,290	-	91,788
Residential mortgage-backed securities	552,210	10,220	(952)	561,478
Commercial mortgage-backed securities	60,701	677	(182)	61,196
Collateralized loan obligation securities	238,781	584	(69)	239,296

Foreign debt securities	48,573	779	(28)	49,324
Corporate and other debt securities	116,474	2,206	(49)	118,631
	$ 1,311,872	$ 21,553	$ (4,732)	$ 1,328,693

Held-to-maturity	June 30, 2016			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 17,961	$ 433	$ (3,386)	$ 15,008
Other debt securities - pooled	75,576	906	(23)	76,459
	$ 93,537	$ 1,339	$ (3,409)	$ 91,467

Available-for-sale	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government agency securities	$ 29,315	$ 18	$ (95)	$ 29,238
Federally insured student loan securities	118,651	28	(3,530)	115,149
Tax-exempt obligations of states and political subdivisions	94,572	2,665	(74)	97,163
Taxable obligations of states and political subdivisions	95,802	2,370	(476)	97,696
Residential mortgage-backed securities	451,432	1,540	(2,865)	450,107
Commercial mortgage-backed securities	58,512	361	(570)	58,303
Collateralized loan obligation securities	70,573	-	(81)	70,492

Foreign debt securities	57,375	65	(308)	57,132
Corporate and other debt securities	95,354	188	(724)	94,818
	$ 1,071,586	$ 7,235	$ (8,723)	$ 1,070,098

Held-to-maturity	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Other debt securities - single issuers	$ 17,934	$ 569	$ (3,456)	$ 15,047
Other debt securities - pooled	75,656	938	(42)	76,552
	$ 93,590	$ 1,507	$ (3,498)	$ 91,599

Investments in Federal Home Loan and Atlantic Central Bankers Bank stock are recorded at cost and amounted to $12.3 million and $1.1 million, respectively, at June 30, 2016 and December 31, 2015.

The amortized cost and fair value of the Company's investment securities at June 30, 2016, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due before one year	$ 30,735	$ 30,753	$ -	$ -
Due after one year through five years	164,510	167,362	7,014	7,339
Due after five years through ten years	415,787	423,932	-	-
Due after ten years	700,840	706,646	86,523	84,128
	$ 1,311,872	$ 1,328,693	$ 93,537	$ 91,467

At June 30, 2016 and December 31, 2015, investment securities with a book value of approximately $583.5 million and $472.3 million, respectively, were pledged as collateral to secure Federal Home Loan Bank advances or sold under repurchase agreements as required or permitted by law.

Fair value of available-for-sale securities are based on the fair market value supplied by a third-party market data provider, while the fair value of held-to-maturity securities are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date. The Company periodically reviews its investment portfolio to determine whether unrealized losses are other than temporary, based on an evaluation of the creditworthiness of the issuers/guarantors as well as the underlying collateral, if applicable, in addition to the continuing performance of the securities. The amount of the credit impairment is calculated by estimating the discounted cash flows for those securities. The Company did not recognize any other-than-temporary impairment charges in the first six months of 2016.

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at June 30, 2016 (dollars in thousands):

Available-for-sale		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
U.S. Government agency securities	3	$ 11,084	$ (64)	$ -	$ -	$ 11,0
Federally insured student loan securities	21	58,209	(1,218)	63,045	(2,143)	121,254
Tax-exempt obligations of states and political subdivisions	19	5,812	(2)	6,341	(25)	12,153
Residential mortgage-backed securities	54	137,731	(574)	31,737	(378)	169,468
Commercial mortgage-backed securities	26	13,498	(95)	8,673	(87)	22,171
Collateralized loan obligation securities	4	28,376	(69)	-	-	28,376
Foreign debt securities	6	2,795	(18)	1,637	(10)	4,432
Corporate and other debt securities	10	2,616	(18)	3,112	(31)	5,728
Total temporarily impaired investment securities	143	$ 260,121	$ (2,058)	$ 114,545	$ (2,674)	$ 374,6

Held-to-maturity	Less than 12 months		12 months or longer		Total
	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value

Description of Securities	Number of securities									
Corporate and other debt securities:										
Single issuers	1	$	-	$	-	$	5,653	$	(3,386)	$ 5,65
Pooled	1	25,531		(23)		-		-		25,531
Total temporarily impaired investment securities	2	$	25,531	$	(23)	$	5,653	$	(3,386)	$ 31,18

The table below indicates the length of time individual securities had been in a continuous unrealized loss position at December 31, 2015 (dollars in thousands):

Available-for-sale		Less than 12 months				12 months or longer				Total
Description of Securities	Number of securities	Fair Value		Unrealized losses		Fair Value		Unrealized losses		Fair Value
U.S. Government agency securities	3	$	16,500	$	(95)	$	-	$	-	$ 16,5
Federally insured student loan securities	18	39,880		(1,832)		64,883		(1,698)		104,763
Tax-exempt obligations of states and political subdivisions	31	1,510		(22)		18,976		(52)		20,486
Taxable obligations of states and political subdivisions	30	40,310		(450)		7,023		(26)		47,333
Residential mortgage-backed securities	63	200,820		(2,155)		71,043		(710)		271,863
Commercial mortgage-backed	37	25,899		(233)		17,539		(337)		43,438

securities						
Collateralized loan obligation securities	5	56,638	(81)	13,855	-	70,493
Foreign debt securities	51	24,274	(245)	18,272	(63)	42,546
Corporate and other debt securities	75	50,073	(687)	10,761	(37)	60,834
Total temporarily impaired investment securities	313	$ 455,904	$ (5,800)	$ 222,352	$ (2,923)	$ 678,2

Held-to-maturity		Less than 12 months		12 months or longer		Total
	Number of securities	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value
Description of Securities						
Corporate and other debt securities:						
Single issuers	1	$ -	$ -	$ 5,558	$ (3,456)	$ 5,558
Pooled	1	25,563	(42)	-	-	25,563
Total temporarily impaired						

investment securities	2	$	25,563	$	(42)	$	5,558	$	(3,456)	$	31,121	$

Other securities included in the held-to-maturity classification at June 30, 2016 consisted of three securities secured by diversified portfolios of corporate securities, one bank senior note, two single-issuer trust preferred securities and one pooled trust preferred security.

A total of $17.9 million of other debt securities - single issuers is comprised of the following: (i) amortized cost of the two single-issuer trust preferred securities of $10.9 million, of which one security for $1.9 million was issued by a bank and one security for $9.0 million was issued by an insurance company; and (ii) the book value of a bank senior note of $7.0 million.

A total of $75.5 million of other debt securities – pooled is comprised of the following: (i) one pooled trust preferred security for $22,000, which was collateralized by bank trust preferred securities; and (ii) three securities consisting of diversified portfolios of corporate securities with a book value of $75.5 million.

The following table provides additional information related to the Company's single issuer trust preferred securities as of June 30, 2016 (in thousands):

Single issuer	Book value		Fair value		Unrealized gain/(loss)		Credit rating
Security A	$	1,907	$	2,015	$	108	Not rated
Security B	9,039		5,653		(3,386)		Not rated

Class: All of the above are trust preferred securities.

The following table provides additional information related to the Company's pooled trust preferred securities as of June 30, 2016:

Pooled issue	Class	Book value	Fair value	Unrealized gain

								Credit rating	Excess subordination
Pool A (7 performing issuers)	Mezzanine	$	22	$	22	$	-	CAA1	*

* There is no excess subordination for these securities.

The Company has evaluated the securities in the above tables and has concluded that none of these securities has impairment that is other-than-temporary. The Company evaluates whether a credit impairment exists by considering primarily the following factors: (a) the length of time and extent to which the fair value has been less than the amortized cost of the security, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, (c) whether the issuer is current on contractually obligated interest and principal payments, (d) changes in the financial condition of the security's underlying collateral and (e) the payment structure of the security. The Company's best estimate of expected future cash flows, which is used to determine the credit loss amount, is a quantitative and qualitative process that incorporates information received from third-party sources along with internal assumptions and judgments regarding the future performance of the security. The Company concluded that most of the securities that are in an unrealized loss position are in a loss position because of changes in market interest rates after the securities were purchased. Securities that have been in an unrealized loss position for 12 months or longer include other securities whose market values are sensitive to market interest rates and changes in credit quality. The Company's unrealized loss for other of the debt securities, which include three single issuer trust preferred securities and one pooled trust preferred security, is primarily related to general market conditions, including a lack of liquidity in the market. The severity of the temporary impairments in relation to the carrying amounts of the individual investments is consistent with market developments. The Company's analysis for each investment is performed at the security level. As a result of its review, the Company concluded that other-than-temporary impairment did not exist due to the Company's ability and intention to hold these securities to recover their amortized cost basis.

Note 6. Loans

The Company has several lending lines of business including SBA loans, direct lease financing, SBLOC and other specialty and consumer lending. The Company also originates loans for sale to other financial institutions which issue commercial mortgage backed securities or to secondary government guaranteed loan markets. These sales are accounted for as true sales and there is no continuing involvement in these loans after the sale. Servicing rights on these loans are not retained. The Company has elected fair value treatment for these loans to better reflect the economics of the transactions. At June 30, 2016, the fair value of the loans held for sale was $441.6 million and the unpaid principal balance was $429.2 million. Included in the gain on sale of loans in the Statements of Operations were gains recognized from changes in fair value of $6.5 million for the six months ended June 30, 2016. There were no changes in fair value related to credit risk. Interest earned on loans held for sale during the period held are recorded in Interest Income-Loans, including fees on the Statements of Operations.

In the second quarter of 2016, the Company purchased approximately $60 million in fleet vehicle leases which resulted in a customer list intangible of $1.8 million which is being amortized over a 12 year period. The balance of the $8.9 million purchase price was allocated to premium which is being amortized over the estimated average lives of the leases. The Company expects to complete its accounting for this purchase by the fourth quarter of 2016.

The Company analyzes credit risk prior to making loans on an individual loan basis. The Company considers relevant aspects of the borrowers' financial position and cash flow, past borrower performance, management's knowledge of market conditions, collateral and the ratio of loan amounts to estimated collateral value in making its credit determinations.

Major classifications of loans, excluding loans held for sale, are as follows (in thousands):

	June 30, 2016		December 31, 2015	
SBA non real estate	$	71,596	$	68,887
SBA commercial mortgage	116,617		114,029	
SBA construction	3,751		6,977	
SBA loans *	191,964		189,893	
Direct lease financing	315,639		231,514	
SBLOC	607,017		575,948	
Other specialty lending	40,543		48,315	
Other consumer loans	20,005		23,180	
	1,175,168		1,068,850	
Unamortized loan fees and costs	6,938		9,227	
Total loans, net of deferred loan costs	$	1,182,106	$	1,078,077

Included in the table above are demand deposit overdrafts reclassified as loan balances totaling $1.9 million and $2.8 million at June 30, 2016 and December 31, 2015, respectively. Overdraft charge-offs and recoveries are reflected in the allowance for loan and lease losses.

* The following table shows SBA loans and SBA loans held for sale at the dates indicated (in thousands):

	June 30, 2016		December 31, 2015	
SBA loans, including deferred fees and costs	$	197,544	$	197,966
SBA loans included in held for sale	136,660		109,174	
Total SBA loans	$	334,204	$	307,140

The following table provides information about impaired loans at June 30, 2016 and December 31, 2015 (in thousands):

	Recorded investment		Unpaid principal balance		Related allowance		Average recorded investment		Interest income recognized	
June 30, 2016										
Without an allowance recorded										
SBA non real estate	$	259	$	259	$	-	$	261	$	-
Consumer - other	323		323		-		326		-	
Consumer - home equity	1,274		1,274		-		881		-	
With an allowance recorded									-	
SBA non real estate	945		945		258		711		-	
Consumer - other	-		-		-		-		-	
Consumer - home equity	827		927		474		639		-	
Total										

SBA non real estate	1,204	1,204	258	972	-
Consumer - other	323	323	-	326	-
Consumer - home equity	2,101	2,201	474	1,520	-

December 31, 2015					
Without an allowance recorded					
SBA non real estate	$ 263	$ 263	$ -	$ 228	$ -
Consumer - other	330	330	-	338	-
Consumer - home equity	368	368	-	966	-
With an allowance recorded					
SBA non real estate	640	640	123	670	-
Consumer - other	-	-	-	-	-
Consumer - home equity	827	927	26	800	-
Total					
SBA non real estate	903	903	123	898	-
Consumer - other	330	330	-	338	-
Consumer - home equity	1,195	1,295	26	1,766	-

The following tables summarize the Company’s non-accrual loans, loans past due 90 days and still accruing and other real estate owned for the periods indicated (the Company had no non-accrual leases at June 30, 2016 or December 31, 2015) (in thousands):

	June 30, 2016	December 31, 2015

Non-accrual loans		
SBA non real estate	$ 1,047	$ 733
Consumer	2,100	1,194
Total non-accrual loans	3,147	1,927
Loans past due 90 days or more	3,172	403
Total non-performing loans	6,319	2,330
Other real estate owned	-	-
Total non-performing assets	$ 6,319	$ 2,330

The Company's loans that were modified as of June 30, 2016 and December 31, 2015 and considered troubled debt restructurings are as follows (dollars in thousands):

	June 30, 2016			December 31, 2015		
	Number	Pre-modification recorded investment	Post-modification recorded investment	Number	Pre-modification recorded investment	Post-modification recorded investment
SBA non real estate	2	$ 416	$ 416	1	$ 171	$ 171
Consumer	2	427	427	2	434	434
Total	4	$ 843	$ 843	3	$ 605	$ 605

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The balances below provide information as to how the loans were modified as troubled debt restructurings loans as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016			December 31, 2015		
	Adjusted interest rate	Extended maturity	Combined rate and maturity	Adjusted interest rate	Extended maturity	Combined rate and maturity
SBA non real estate	$ -	$ 157	$ 259	$ -	$ 171	$ -
Consumer	-	323	104	-	330	104
Total	$ -	$ 480	$ 363	$ -	$ 501	$ 104

The following table summarizes as of June 30, 2016 loans that had been restructured within the last 12 months that have subsequently defaulted.

	Number	Pre-modification recorded investment
Consumer	1	$ 323
Total	1	$ 323

As of June 30, 2016 and December 31, 2015, the Company had no commitments to lend additional funds to loan customers whose loan terms have been modified in troubled debt restructurings.

A detail of the changes in the allowance for loan and lease losses by loan category is as follows (in thousands):

	SBA non real estate	SBA commercial mortgage	SBA construction	Direct lease financing	SBLOC	Other specialty lending
June 30, 2016						
Beginning balance	$ 844	$ 408	$ 48	$ 1,022	$ 762	$ 199
Charge-offs	-	-	-	(50)	-	-
Recoveries	1	-	-	10	-	-
Provision (credit)	374	211	(22)	735	(330)	(89)

Ending balance	$	1,219	$	619	$	26	$	1,717	$	432	$	110
Ending balance: Individually evaluated for impairment	$	121	$	-	$	-	$	-	$	-	$	-
Ending balance: Collectively evaluated for impairment	$	1,098	$	619	$	26	$	1,717	$	432	$	110
Loans: Ending balance	$	71,596	$	116,617	$	3,751	$	315,639	$	607,017	$	40,54
Ending balance: Individually evaluated for impairment	$	808	$	-	$	-	$	-	$	-	$	-

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Ending balance: Collectively evaluated for impairment	$ 70,788	$ 116,617	$ 3,751	$ 315,639	$ 607,017	$ 40,54
December 31, 2015						
Beginning balance	$ 385	$ 461	$ 114	$ 836	$ 562	$ 6
Charge-offs	(111)	-	-	(30)	-	-
Recoveries	-	-	-	-	-	-
Provision (credit)	570	(53)	(66)	216	200	133
Ending balance	$ 844	$ 408	$ 48	$ 1,022	$ 762	$ 19
Ending balance: Individually evaluated for impairment	$ 123	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 721	$ 408	$ 48	$ 1,022	$ 762	$ 19
Loans: Ending balance	$ 68,887	$ 114,029	$ 6,977	$ 231,514	$ 575,948	$ 48,31
Ending balance: Individually evaluated for impairment	$ 904	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively	$ 67,983	$ 114,029	$ 6,977	$ 231,514	$ 575,948	$ 48,31

evaluated for impairment												
June 30, 2015												
Beginning balance	$	385	$	461	$	114	$	836	$	562	$	66
Charge-offs	(65)		-		-		(9)		-		-	
Recoveries	-		-		-		-		-		-	
Provision (credit)	576		(159)		(23)		41		112		21	
Ending balance	$	896	$	302	$	91	$	868	$	674	$	87
Ending balance: Individually evaluated for impairment	$	242	$	-	$	-	$	-	$	-	$	-
Ending balance: Collectively evaluated for impairment	$	654	$	302	$	91	$	868	$	674	$	87
Loans: Ending balance	$	63,390	$	85,234	$	16,977	$	222,169	$	512,269	$	32,118

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Ending balance: Individually evaluated for impairment	$ 976	$ -	$ -	$ -	$ -	$ -
Ending balance: Collectively evaluated for impairment	$ 62,414	$ 85,234	$ 16,977	$ 222,169	$ 512,269	$ 32,11

The Company did not have loans acquired with deteriorated credit quality at either June 30, 2016 or December 31, 2015.

A detail of the Company's delinquent loans by loan category is as follows (in thousands):

June 30, 2016	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	Current
SBA non real estate	$ -	$ -	$ -	$ 1,046	$ 1,046	$ 70,5
SBA commercial mortgage	-	-	-	-	-	116,617
SBA construction	-	-	-	-	-	3,751
Direct lease financing	5,880	3,021	2,882	-	11,783	303,856
SBLOC	-	190	-	-	190	606,827
Other specialty lending	-	-	-	-	-	40,543
Consumer - other	325	-	-	-	325	5,145
Consumer - home equity	162	-	290	2,101	2,553	11,982
Unamortized loan fees and costs	-	-	-	-	-	6,938

	$ 6,367	$ 3,211	$ 3,172	$ 3,147	$ 15,897	$ 1,166,2

December 31, 2015	30-59 Days past due	60-89 Days past due	Greater than 90 days	Non-accrual	Total past due	Current
SBA non real estate	$ -	$ -	$ -	$ 733	$ 733	$ 68,1
SBA commercial mortgage	-	-	-	-	-	114,029
SBA construction	-	-	-	-	-	6,977
Direct lease financing	3,957	3,108	403	-	7,468	224,046
SBLOC	-	-	-	-	-	575,948
Other specialty lending	-	-	-	-	-	48,315
Consumer - other	-	1	-	-	1	6,844
Consumer - home equity	-	1,398	-	1,194	2,592	13,743
Unamortized loan fees and costs	-	-	-	-	-	9,227
	$ 3,957	$ 4,507	$ 403	$ 1,927	$ 10,794	$ 1,067,2

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The Company evaluates its loans under an internal loan risk rating system as a means of identifying problem loans. The following table provides information by credit risk rating indicator for each segment of the loan portfolio, excluding loans held for sale, at the dates indicated (in thousands):

June 30, 2016	Pass	Special mention	Substandard	Doubtful	Loss	Unrated subject to review *	Unrat to rev
SBA non real estate	$ 56,744	$ -	$ 2,194	$ -	$ -	$ 375	$
SBA commercial mortgage	96,364	-	-	-	-	735	19,51
SBA construction	3,751	-	-	-	-	-	-
Direct lease financing	101,701	-	939	-	-	43,262	169,7
SBLOC	257,473	-	-	-	-	18,941	330,6
Other specialty lending	38,787	-	-	-	-	-	1,756
Consumer	11,567	-	3,884	-	-	-	4,554
Unamortized loan fees and costs	-	-	-	-	-	-	6,938
	$ 566,387	$ -	$ 7,017	$ -	$ -	$ 63,313	$
December 31, 2015							
SBA non real estate	$ 55,682	$ -	$ 904	$ -	$ -	$ 8,610	$
SBA commercial mortgage	92,859	-	-	-	-	3,894	17,27
SBA construction	6,977	-	-	-	-	-	-
Direct lease financing	90,588	-	670	-	-	17,200	123,0
SBLOC	204,201	-	-	-	-	19,372	352,3
Other specialty lending	46,520	-	-	-	-	-	1,795
Consumer	7,631	70	3,473	-	-	457	11,54
Unamortized loan fees and costs	-	-	-	-	-	-	9,227
	$ 504,458	$ 70	$ 5,047	$ -	$ -	$ 49,533	$

* For information on targeted loan review thresholds see “Allowance for Loan Losses”

Note 7. Transactions with Affiliates

The Company entered into a space sharing agreement for office space in New York, New York with Resource America, Inc. commencing in September 2011 which terminated January 31, 2015. The Company paid only its proportionate share of the lease rate to a lessor which was an unrelated third party. The Chairman of the Board of Resource America, Inc. is the father of the Chairman of the Board and the spouse of the former Chief Executive Officer of the Company. The Chief Executive Officer of Resource America, Inc. is the brother of the Chairman of the Board and the son of the former Chief Executive Officer of the Company. Rent expense was 50% of the fixed rent, real estate tax and the base expense charges. Rent expense was $0 for the six months ended June 30, 2016 and $9,000 for the six months ended June 30, 2015.

The Company entered into a space sharing agreement for office space in New York, New York with Atlas Energy, L.P. commencing in May 2012. This agreement expired in May 2015. The Company paid only its proportionate share of the lease rate to a lessor which was an unrelated third party. The Chairman of the Board of the general partner of Atlas Energy, L.P. is the brother of the Chairman of the Board and the son of the former Chief Executive Officer of the Company. The Chief Executive Officer and President of Atlas Energy, L.P. is the father of the Chairman of the Board and the spouse of the former Chief Executive Officer of the Company. Rent expense was 50% of the fixed rent, real estate tax payment and the base expense charges. Rent expense was $0 and $35,000 for the six months ended June 30, 2016 and 2015, respectively.

The Bank maintains deposits for various affiliated companies totaling approximately $5.5 million and $33.4 million as of June 30, 2016 and December 31, 2015, respectively.

The Bank has entered into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons. All loans were made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable loans with persons not related to the lender. At June 30, 2016, these loans were current as to principal and interest payments and did not involve more than normal risk of collectability. Loans to these related parties included in Loans, net of deferred loan fees and costs, amounted to $1.5 million at June 30, 2016 and $1.8 million at December 31, 2015.

The Bank periodically purchases securities under agreements to resell and engages in other securities transactions as follows. The Company executed transactions through J.V.B. Financial Group, LLC, (JVB), a broker dealer in which the Company’s Chairman has a minority interest. The Company’s Chairman also serves as Vice Chairman of Institutional Financial Markets Inc., the parent company of JVB. The Company purchased securities under agreements to resell through JVB primarily consisting of G.N.M.A. certificates which

are full faith and credit obligations of the United States government issued at competitive rates. JVB was in compliance with all of the terms of the agreements at June 30, 2016 and had complied with all terms for all prior repurchase agreements. There were $39.4 million of repurchase agreements outstanding at June 30, 2016 and none outstanding at December 31, 2015.

The Company entered into a consulting agreement with Betsy Z. Cohen, its former Chief Executive Officer, which was effective January 1, 2015 and expires on December 31, 2016. Under the agreement, Mrs. Cohen acts as an advisor to the Board of Directors and executive management with respect to business strategies, the performance of various lines of business, and other corporate and regulatory matters. The agreement is intended to preserve for the Company Mrs. Cohen's insight and experience with respect to the Company, the Bank and the financial services industry generally. The agreement provides for a monthly consulting fee of $30,000, and the provision of office space and administrative support. We have not paid any monthly fees under this agreement pending regulatory review.

Note 8. Fair Value Measurements

ASC 825," Financial Instruments Available for Sale", requires disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered to be financial instruments. However, many of such instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. Accordingly, estimated fair values are determined by the Company using the best available data and an estimation methodology it believes to be suitable for each category of financial instruments. Also, it is the Company's general practice and intent to hold its financial instruments to maturity whether or not categorized as "available-for-sale" and not to engage in trading or sales activities, except for the sale of commercial loans to secondary markets. For fair value disclosure purposes, the Company utilized certain value measurement criteria required under the ASC 820, "Fair Value Measurements and Disclosures", and discussed below.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology it believes to be suitable for each category of financial instruments. Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also, there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Cash and cash equivalents, which are comprised of cash and due from banks, the Company's balance at the Federal Reserve Bank and securities purchased under agreements to resell, had recorded values of $571.5 million and $1.16 billion as of June 30, 2016 and December 31, 2015, respectively, which approximated fair values.

The estimated fair values of investment securities are based on quoted market prices, if available, or estimated using a methodology based on management's inputs. The fair values of the Company's investment securities held-to-maturity and loans held for sale are based on using "unobservable inputs" that are the best information available in the circumstances. Level 3 investment securities fair values are based on the present value of cash flows, which discounts expected cash flows from principal and interest using yield to maturity at the measurement date.

FHLB and Atlantic Community Bancshares stock is held as required by those respective institutions and is carried at cost. Federal law requires a member institution of the FHLB to hold stock according to predetermined formulas. Atlantic Community Bancshares requires its correspondent banking institutions to hold stock as a condition of membership.

Commercial loans held for sale have estimated fair values based upon market indications of the sales price of such loans from recent sales transactions.

The net loan portfolio at June 30, 2016 and December 31, 2015 has been valued using the present value of discounted cash flow where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. Accrued interest receivable has a carrying value that approximates fair value

On December 30, 2014, the Bank entered into an agreement for, and closed on, the sale of a portion of its discontinued commercial loan portfolio. The purchaser of the loan portfolio was a newly formed entity, 2014-1 LLC (Walnut Street). The price paid to the Bank for the loan portfolio which had a face value of approximately $267.6 million, was approximately $209.6 million, of which approximately $193.6 million was in the form of two notes issued by Walnut Street to the Bank; a senior note in the principal amount of approximately $178.2 million bearing interest at 1.5% per year and maturing in December 2024 and a subordinate note in the principal amount of approximately $15.4 million, bearing interest at 10.0% per year and maturing in December 2024. The balance of these notes comprises the balance of the investment in unconsolidated entity. The fair value was established by the sales price and subsequently subjected to cash flow analysis. The change in value of investment in unconsolidated entity in the income statement includes interest paid and changes in estimated fair value.

Assets held for sale as of June 30, 2016 are held at the lower of cost basis or market value. For loans, market value was determined using the income approach which converts expected cash flows from the loan portfolio by unit of measurement to a present value estimate. Unit of measurement was determined by loan type and for significant loans on an individual loan basis. The fair values of the Company's loans classified as assets held for sale are based on "unobservable inputs" that are the best information available in the circumstances. Level 3 fair values are based on the present value of cash flows by unit of measurement. For commercial loans, a market adjusted rate to discount expected cash flows from outstanding principal and interest to expected maturity at the measurement date, was utilized. For other real estate owned, market value was based upon appraisals of the underlying collateral by third party appraisers, reduced by 7% to 10% for estimated selling costs.

The estimated fair values of demand deposits (comprising interest and non-interest bearing checking accounts, savings, and certain types of money market accounts) are equal to the amount payable on demand at the reporting date (generally, their carrying amounts). The fair values of securities sold under agreements to repurchase and short term borrowings are equal to their carrying amounts as they are overnight borrowings.

Time deposits and subordinated debentures have a fair value estimated using a discounted cash flow calculation that applies current interest rates to discount expected cash flows. Based upon time deposit maturities at June 30, 2016, the carrying values approximate their fair values. The carrying amount of accrued interest payable approximates its fair value.

The fair values of interest rate swaps are determined using models that use readily observable market inputs and a market standard methodology applied to the contractual terms of the derivatives, including the period to maturity and interest rate indices.

The fair value of commitments to extend credit is estimated based on the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based on the amount of unearned fees plus the estimated cost to terminate the letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit, and the fair value of letters of credit are considered immaterial.

The following tables provide information regarding carrying amounts and estimated fair values (in thousands):

	June 30, 2016				
	Carrying amount (in thousands)	Estimated fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available-for-sale	$ 1,328,693	$ 1,328,693	$ -	$ 1,328,693	$ -
	93,537	91,467	-	85,792	5,675

Investment securities held-to-maturity					
Securities purchased under agreements to resell	39,360	39,360	39,360	-	-
Federal Home Loan and Atlantic Community Bancshares stock	12,289	12,289	-	-	12,289
Commercial loans held for sale	441,593	441,593	-	-	441,593
Loans, net of deferred loan fees and costs	1,182,106	1,177,930	-	-	1,177,930
Investment in unconsolidated entity, senior note	155,009	155,009	-	-	155,009
Investment in unconsolidated entity, subordinated note	7,266	7,266	-	-	7,266
Assets held for sale	487,373	487,373	-	-	487,373
Demand and interest checking	3,569,669	3,569,669	3,569,669	-	-
Savings and money market	389,851	389,851	389,851	-	-
Time deposits	101,160	101,197	-	-	101,197
Subordinated debentures	13,401	8,785	-	-	8,785
Securities sold under agreements to repurchase	318	318	318	-	-
Interest rate swaps, liability	6,351	6,351	-	6,351	-

	December 31, 2015				
	Carrying amount (in thousands)	Estimated fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available-for-sale	$ 1,070,098	$ 1,070,098	$ -	$ 1,070,098	$
Investment securities held-to-maturity	93,590	91,599	7,490	76,552	7,557
Federal Home Loan and Atlantic Community Bancshares stock	1,062	1,062	-	-	1,062
Commercial loans held for sale	489,938	489,938	-	-	489,938
Loans, net of deferred loan fees and costs	1,078,077	1,068,718	-	-	1,068,718
Investment in unconsolidated entity, senior note	166,548	166,548	-	-	166,548
Investment in unconsolidated entity, subordinated note	11,972	11,972	-	-	11,972
Assets held for sale	583,909	583,909	-	-	583,909
Demand and interest checking	3,602,376	3,602,376	3,602,376	-	-
Savings and money market	383,832	383,832	383,832	-	-
Time deposits	428,549	428,711	-	-	428,711
Subordinated debentures	13,401	8,529	-	-	8,529
Securities sold under agreements to repurchase	925	925	925	-	-
Interest rate swaps, asset	43	43	-	43	-

The assets and liabilities measured at fair value on a recurring basis, segregated by fair value hierarchy, are summarized below (in thousands):

	Fair value June 30, 2016	Fair Value Measurements at Reporting Date Using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale				
U.S. Government agency securities	$ 27,256	$ -	$ 27,256	$
Federally insured student loan securities	126,396	-	126,396	-
Obligations of states and political subdivisions	145,116	-	145,116	-
Residential mortgage-backed securities	561,478	-	561,478	-
Commercial mortgage-backed securities	61,196	-	61,196	-
Collateralized loan obligation securities	239,296	-	239,296	-
Foreign debt securities	49,324	-	49,324	-
Other debt securities	118,631	-	118,631	-
Total investment securities available for sale	1,328,693	-	1,328,693	-
Loans held for sale	441,593	-	-	441,593
Investment in unconsolidated entity, senior note	155,009	-	-	155,009
Investment in unconsolidated entity, subordinated note	7,266	-	-	7,266
Assets held for sale	487,373	-	-	487,373
Interest rate swaps, liability	6,351	-	6,351	-

$	2,413,583	$	-	$	1,322,342	$	1,09

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		Fair Value Measurements at Reporting Date Using		
	Fair value December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale				
U.S. Government agency securities	$ 29,238	$ -	$ 29,238	$
Federally insured student loan securities	115,149	-	115,149	-
Obligations of states and political subdivisions	194,859	-	194,859	-
Residential mortgage-backed securities	450,107	-	450,107	-
Commercial mortgage-backed securities	58,303	-	58,303	-
Collateralized loan obligation securities	70,492	-	70,492	-
Foreign debt securities	57,132	-	57,132	-
Other debt securities	94,818	-	94,818	-
Total investment securities available for sale	1,070,098	-	1,070,098	-
Loans held for sale	489,938	-	-	489,938
Investment in unconsolidated entity, senior note	166,548	-	-	166,548
Investment in unconsolidated entity, subordinated note	11,972	-	-	11,972
Assets held for sale	583,909	-	-	583,909
Interest rate swaps, asset	43	-	43	-
	$ 2,322,508	$ -	$ 1,070,141	$ 1,25

In addition, ASC 820, “Fair Value Measurements and Disclosures”, establishes a common definition for fair value to be applied to assets and liabilities. It clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a framework for measuring fair value and expands disclosures concerning fair value measurements. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques 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). Level 1 valuation is based on quoted market prices for identical assets or liabilities to which the Company has access at the measurement date. Level 2 valuation is based on other observable inputs for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset or liability such as yield curves, volatilities, prepayment speeds, credit risks, default rates, or inputs that are derived principally from, or corroborated through, observable market data by market-corroborated reports. Level 3 valuation is based on “unobservable inputs” which the Company believes is the best information available in the circumstances. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The changes in the Company’s Level 3 assets measured at fair value on a recurring basis, segregated by fair value hierarchy level, are summarized below (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Available-for-sale securities		Commercial loans held for sale	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 20
Beginning balance	$ -	$ 1,366	$ 489,938	$
Transfers into level 3	-	-	-	-
Transfers out of level 3	-	-	-	-
Total gains or losses (realized/unrealized)				
Included in earnings	-	(23)	6,457	1,677
Included in other comprehensive income	-	-	-	-
Purchases, issuances, and settlements				
Purchases	-	-	-	-
Issuances	-	-	263,473	681,526
Sales	-	(1,343)	(318,275)	(410,345)
Settlements	-	-	-	-
Ending balance	$ -	$ -	$ 441,593	$
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	$ -	$ -	$ 7,711	$

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Investment in unconsolidated entity	
	June 30, 2016	December 31, 2015
Beginning balance	$ 178,520	$ 193,595

Transfers into level 3	-		-	
Transfers out of level 3	-		-	
Total gains or losses (realized/unrealized)				
Included in earnings	(14,753)		(2,430)	
Included in other comprehensive income	-		-	
Purchases, issuances, and settlements				
Purchases	-		-	
Issuances	-		-	
Sales	-		-	
Settlements	(1,492)		(12,645)	
Ending balance	$	162,275	$	178,520
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	$	(14,753)	$	(2,430)

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Assets measured at fair value on a nonrecurring basis, segregated by fair value hierarchy, during the periods shown are summarized below (in thousands):

Description	Fair value June 30, 2016	Fair Value Measurements at Reporting Date Using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs * (Level 3)
Impaired loans - collateral dependent	$ 3,628	$ -	$ -	$ 3,628
Intangible assets	6,074	-	-	6,074
	$ 9,702	$ -	$ -	$ 9,702

Description	Fair value December 31, 2015	Fair Value Measurements at Reporting Date Using Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs * (Level 3)
Impaired loans - collateral dependent	$ 2,428	$ -	$ -	2,428
Intangible assets	4,929	-	-	4,929
	$ 7,357	$ -	$ -	$ 7,357

(1) The method of valuation approach for the impaired loans was the market value approach based upon appraisals of the underlying collateral by external appraisers, reduced by 7-10% for estimated selling costs. Intangible assets are valued based upon internal analyses.

At June 30, 2016, impaired loans and troubled debt restructuring that are measured based on the value of underlying collateral have been presented at their fair value, less costs to sell, of $3.9 million through specific reserves and other write downs of $732,000 or by recording charge-offs when the carrying value exceeds the fair value. Included in the impaired balance at June 30, 2016 were four troubled debt restructured loans with a balance of $843,000 which had specific reserves of $39,000. Valuation techniques consistent with the market and/or cost approach were used to measure fair value and primarily included observable inputs for the individual impaired loans being evaluated such as recent sales of similar assets or observable market data for operational or carrying costs. In cases where such inputs were unobservable, the loan balance is reflected within the Level 3 hierarchy. The fair value of other real estate owned is based on an appraisal of the property using the market approach for valuation.

Note 9. Derivatives

The Company utilizes derivative instruments to assist in the management of interest rate sensitivity by modifying the repricing, maturity and option characteristics on commercial real estate loans held for sale. These instruments are not accounted for as hedges. As of June 30, 2016, the Company had entered into nineteen interest rate swap agreements with an aggregate notional amount of $120.6 million. These swap agreements provide for the Company to receive an adjustable rate of interest based upon the three-month London Interbank Offering Rate (LIBOR). The Company recorded a loss of $6.4 million for the six months ended June 30, 2016 to recognize the fair value of the derivative instruments which is reported in gain (loss) on sale of loans. The amount payable by the Company under these swap agreements was $6.4 million at June 30, 2016 which is reported in other liabilities. The Company had minimum collateral posting thresholds with certain of its derivative counterparties and had posted cash collateral of $7.2 million as of June 30, 2016.

The maturity dates, notional amounts, interest rates paid and received and fair value of the Company's remaining interest rate swap agreements as of June 30, 2016 are summarized below (in thousands):

	June 30, 2016			
Maturity date	Notional amount	Interest rate paid	Interest rate received	Fair value
May 9, 2021	$ 3,400	1.2%	0.63%	$ (33)
August 17, 2025	4,000	2.3%	0.63%	(335)
August 17, 2025	2,500	2.3%	0.63%	(209)
August 17, 2025	2,500	2.3%	0.63%	(209)
October 7, 2025	3,200	2.1%	0.63%	(208)
November 27, 2025	1,700	2.1%	0.67%	(118)
December 11, 2025	2,400	2.1%	0.66%	(173)
December 15, 2025	5,300	2.1%	0.65%	(367)
December 17, 2025	3,300	2.2%	0.66%	(252)
December 23, 2025	6,800	2.2%	0.64%	(504)
December 24, 2025	8,200	2.2%	0.64%	(621)
December 29, 2025	9,900	2.2%	0.63%	(777)
December 30, 2025	14,800	2.2%	0.63%	(1,141)
January 28, 2026	3,000	1.9%	0.63%	(144)
March 10, 2026	1,200	1.7%	0.66%	(37)
March 29, 2026	1,700	1.7%	0.63%	(60)
April 18, 2026	12,500	1.7%	0.63%	(343)
April 18, 2026	6,600	1.7%	0.63%	(188)
June 8, 2026	27,600	1.6%	0.66%	(632)
Total	$ 120,600			$ (6,351)

Note 10. Other Identifiable Intangible Assets

On November 29, 2012, the Company acquired certain software rights and personnel of a prepaid card program manager in Europe for approximately $1.8 million. With this acquisition the Company expects to establish a European prepaid card presence. The Company allocated the majority of the $1.8 million acquisition cost to software used for its prepaid card business, with related services provided by its European data processing subsidiary. The software is being amortized over eight years. Amortization expense is $217,000 per year ($800,000 over the next five years). The gross carrying amount of the software is $1.8 million and as of June 30, 2016 the accumulated amortization was $1.0 million.

The Company accounts for its customer list in accordance with ASC 350, "Intangibles—Goodwill and Other". The acquisition of the Stored Value Solutions division of Marshall Bank First in 2007 resulted in a customer list intangible of $12.0 million which is being amortized over a 12 year period. Amortization expense is $1.0 million per year ($3.9 million over the next five years). The gross carrying amount of the customer list intangible is $12.0 million and as of June 30, 2016 the accumulated amortization was $8.5 million. For both 2016 and 2015, amortization expense for the second quarter was $250,000 and for the six months was $500,000. In the second quarter of 2016, the Company purchased approximately $60 million in fleet vehicle leases which resulted in a customer list intangible of $1.8 million which is being amortized over a 12 year period. Amortization expense is $176,000 per year ($880,000 over the next five years). The Company preliminarily allocated the $1.8 million to the customer list and expects to complete its accounting for this purchase by the fourth quarter of 2016. Until completion, the above allocation of purchase price is considered preliminary. The gross carrying amount of the customer list intangible is $1.8 million and as of June 30, 2016 and the accumulated amortization was $49,000. For 2016, amortization expense for the second quarter was $49,000 and for the six months was $49,000.

Note 11. Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers”. This ASU establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate and construction industries. The revenue standard’s core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) identify the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies the performance obligation. Three basic transition methods are available - full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the cumulative effect alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. The guidance in this ASU is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The Company does not expect this ASU to have a significant impact on its financial condition or results of operations.

In January 2016, the FASB issued ASU 2016-11, "Financial Instruments-Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities". This ASU revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

In February 2016, the FASB issued ASU 2016-02, "Leases". The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting". This ASU simplifies several areas of accounting for share based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. For public companies, this is effective for annual periods beginning after December 15, 2016, and the interim periods within those annual periods. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

In June, 2016 the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments-Update". The Update changes the accounting for credit losses on loans and debt securities. For loans and held-to-maturity debt securities, the Update requires an expected credit loss model to determine the allowance for credit losses. The expected credit loss model estimates losses for the estimated life of the financial asset. Expected credit losses reflect losses over the remaining contractual life of an asset, considering the effect of voluntary prepayments and considering available information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses reflects the portion of the amortized cost basis that the entity does not expect to collect. Additional quantitative and qualitative disclosures are required upon adoption. In addition, the Update modifies the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods. The guidance is effective in first quarter 2020 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Early adoption is permitted beginning in first quarter 2019. We are evaluating the impact the Update will have on our consolidated financial statements.

Note 12. Regulatory Matters

It is the policy of the Federal Reserve that financial holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that a financial holding company should not maintain a level of cash dividends that undermines the financial holding company's ability to serve as a source of strength to its banking subsidiaries.

Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. Under Delaware banking law, the Bank's directors may declare dividends on common or preferred stock of so much of its net profits as they judge expedient, but the Bank must, before the declaration of a dividend on common stock from net profits, carry 50% of its net profits from the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 50% of its capital stock and thereafter must carry 25% of its net profits for the preceding period for which the dividend is paid to its surplus fund until its surplus fund amounts to 100% of its capital stock.

In addition to these explicit limitations, federal and state regulatory agencies are authorized to prohibit a banking subsidiary or financial holding company from engaging in an unsafe or unsound practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In August 2015, the Bank entered into an Amendment to a 2014 Consent Order with the FDIC pursuant to which the Bank may not pay dividends without prior FDIC approval. On May 11, 2015, the Company had received a Supervisory Letter pursuant to which the Company may not pay dividends without prior Federal Reserve approval. The Federal Reserve approved the payment of the interest on the Company's trust preferred securities due June 15, 2016. Future payments are subject to future approval by the Federal Reserve.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company and the Bank are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Note 13. Legal

On July 17, 2014, a class action securities complaint captioned Fletcher v. The Bancorp Inc., et al., was filed in the United States District Court for the District of Delaware. A consolidated version of that class action complaint was filed before the same court on January 23, 2015 on behalf of Lead Plaintiffs Arkansas Public Employees Retirement System and Arkansas Teacher Retirement System under the caption of In Re The Bancorp, Inc. Securities Litigation, Case No. 14-cv-0952 (SLR). On October 26, 2015, Lead Plaintiffs filed an amended consolidated complaint against Bancorp, Betsy Z. Cohen, Paul Frenkiel, Frank M. Mastrangelo and Jeremy Kuiper, which alleges that during a class period beginning January 26, 2011 through June 26, 2015, the defendants made materially false and/or misleading statements and/or failed to disclose that (i) Bancorp had wrongfully extended and modified problem loans and under-reserved for loan losses due to adverse loans, (ii) Bancorp's operations and credit practices were in violation of the Bank Secrecy Act (BSA), and (iii) as a result, Bancorp's financial statements, press releases and public statements were materially false and misleading during the relevant period. The amended consolidated complaint further alleges that, as a result, the price of Bancorp's common stock was artificially inflated and fell once the defendants' misstatements and omissions were revealed, causing damage to the plaintiffs and the other members of the class. The complaint asks for an unspecified amount of damages, prejudgment and post-judgment interest and attorneys' fees. This litigation is in its preliminary stages. The defendants filed a motion to dismiss the amended consolidated complaint on November 23, 2015. Oral argument on the defendants' motion was held on January 29, 2016 and a court ruling on the motion has been pending. On July 27, 2016, we and all other individually-named defendants entered into a Stipulation and Agreement of Settlement (Settlement Agreement) with respect to the consolidated class action. Under the terms of the Settlement Agreement, we will pay $17.5 million to the plaintiffs as full and complete settlement of the litigation. All amounts paid by us will be fully funded by the Company's insurance carriers. All terms of the Settlement Agreement are subject to court approval.

The Company has received a subpoena from the SEC, dated March 22, 2016, relating to an investigation by the SEC of the Company's restatement of its financial statements for the years ended December 31, 2010 through December 31, 2013 and the interim periods ended March 31, 2014, June 30, 2014 and September 30, 2014, which restatement was filed with the SEC on September 28, 2015, and the facts and circumstances underlying the restatement. The Company is cooperating fully with the SEC's investigation. The costs to respond to the subpoena and cooperate with the SEC's investigation could be material.

On June 30, 2016, the Company received written notice from the Internal Revenue Service that it will be conducting an audit of the Company's tax returns for the tax years 2012, 2013 and 2014. The audit has not yet begun.

The Company received a letter, dated August 1, 2016, demanding inspection of its books and records pursuant to Section 220 of the Delaware General Corporation Law from legal counsel representing a shareholder (the "Demand Letter"). In addition to demanding access to certain of the Company's books and records, the Demand Letter states that the shareholder intends to investigate the actions of the Company's officers and directors, and that the shareholder contemplates the commencement of a shareholder's derivative suit against certain officers and directors of the Company seeking the recovery of the Company's damages and other remedies. The Company has engaged outside counsel to represent it in this matter and is in the process of analyzing its rights and obligations. We have been advised by our counsel in the matter that reasonably possible losses cannot be estimated.

In addition, we are a party to various routine legal proceedings arising out of the ordinary course of our business. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on our financial condition or operations.

Note 14. Segment Financials

The Company performed a strategic evaluation of its businesses in the third quarter of 2014. As a result of the evaluation, the Company decided to discontinue its commercial lending operations, as described in Note 15, Discontinued Operations. The shift from a traditional bank balance sheet led the Company to evaluate its continuing operations. Based on the continuing operations of the Company, it was determined that there would be four segments of the business; specialty finance, payments, corporate and discontinued operations. Specialty finance includes commercial loan sales, SBA loans, leasing and SBLOCs and any deposits generated by those business lines. Payments include prepaid cards, merchant payments and healthcare accounts. Corporate includes the investment portfolio, corporate overhead and other non-allocated expenses. Investment income is allocated to the payments segment. These operating segments reflect the way the Company views its current operations.

	For the three months ended June 30, 2016				
	Specialty finance (in thousands)	Payments	Corporate	Discontinued operations	Total
Interest income	$ 15,347	$ 0	$ 8,597	$ -	$ 23,944
Interest allocation	-	8,597	(8,597)	-	-
Interest expense	716	1,932	406	-	3,054
Net interest income	14,631	6,665	(406)	-	20,890
Provision for loan and lease losses	1,060	-	-	-	1,060
Non-interest income	(11,287) *	16,716	4,111	-	9,540
Non-interest expense	16,821	36,394	3,921	-	57,136
Income (loss) from continuing operations before taxes	(14,537)	(13,013)	(216)	-	(27,766)
Income tax benefit	-	-	(10,004)	-	(10,004)
Income (loss) from continuing operations	(14,537)	(13,013)	9,788	-	(17,762)
Loss from discontinued operations	-	-	-	(13,598)	(13,598)
Net income (loss)	$ (14,537)	$ (13,013)	$ 9,788	$ (13,598)	$ (31,360)

* Reflects writedown of investment in unconsolidated entity

	For the three months ended June 30, 2015				
	Specialty finance	Payments	Corporate	Discontinued operations	Total
	(in thousands)				
Interest income	$ 11,516	$ -	$ 8,856	$ -	$ 20,372
Interest allocation	-	8,856	(8,856)	-	-
Interest expense	1,265	1,860	210	-	3,335
Net interest income	10,250	6,996	(210)	-	17,037
Provision for loan and lease losses	510	-	-	-	510
Non-interest income	10,901	16,034	(2,211)	-	24,724
Non-interest expense	11,627	31,174	3,633	-	46,434
Income (loss) from continuing operations before taxes	9,015	(8,144)	(6,054)	-	(5,183)
Income tax benefit	-	-	(2,684)	-	(2,684)
Income (loss) from continuing operations	9,015	(8,144)	(3,370)	-	(2,499)
Income from discontinued operations	-	-	-	2,673	2,673
Net income (loss)	$ 9,015	$ (8,144)	$ (3,370)	$ 2,673	$ 174

	For the six months ended June 30, 2016				
	Specialty finance (in thousands)	Payments	Corporate	Discontinued operations	Total
Interest income	$ 31,198	$ 1	$ 16,396	$ -	$ 47,595
Interest allocation	-	16,396	(16,396)	-	-
Interest expense	1,400	3,804	945	-	6,149
Net interest income	29,798	12,593	(945)	-	41,446
Provision	1,060	-	-	-	1,060
Non-interest income	(11,005) *	33,066	6,167	-	28,228
Non-interest expense	31,476	72,295	8,503	-	112,274
Income (loss) from continuing operations before taxes	(13,743)	(26,636)	(3,281)	-	(43,660)
Income taxes	-	-	(15,276)	-	(15,276)
Income (loss) from continuing operations	(13,743)	(26,636)	11,995	-	(28,384)
Income from discontinued operations	-	-	-	(13,888)	(13,888)
Net income (loss)	$ (13,743)	$ (26,636)	$ 11,995	$ (13,888)	$ (42,272)

* Reflects writedown of investment in unconsolidated entity

	For the six months ended June 30, 2015				
	Specialty finance (in thousands)	Payments	Corporate	Discontinued operations	Total
Interest income	$ 22,204	$ 10	$ 17,875	$ -	$ 40,089
Interest allocation	-	17,875	(17,875)	-	-
Interest expense	2,477	3,650	410	-	6,538
Net interest income	19,726	14,235	(410)	-	33,551
Provision	1,175	-	-	-	1,175
Non-interest income	14,914	32,772	(2,185)	-	45,501
Non-interest expense	22,076	57,153	8,065	-	87,294
Income (loss) from continuing operations before taxes	11,389	(10,145)	(10,661)	-	(9,417)
Income taxes	-	-	(5,111)	-	(5,111)
Income (loss) from continuing operations	11,389	(10,145)	(5,550)	-	(4,306)
Income from discontinued	-	-	-	4,694	4,694

operations				
Net income (loss)	$	11,389	$	(10,145)