REPUBLIC FIRST BANCORP INC
Form 10-Q
November 09, 2009

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: September 30, 2009

Commission File Number: 000-17007

Republic First Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2486815
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification Number

50 South 16th Street, Philadelphia, Pennsylvania 19102

(Address of principal executive offices)	(Zip code)

215-735-4422
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ____ NO____

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

Large accelerated filer ____ Accelerated Filer X

Non-Accelerated filer ____ Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
YES____ NO X
APPLICABLE ONLY TO CORPORATE ISSUERS:

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

10,665,635 shares of Issuer's Common Stock, par value
$0.01 per share, issued and outstanding as of November 9, 2009

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

Republic First Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
September 30, 2009 and December 31, 2008
(Dollars in thousands, except share data)
(unaudited)

ASSETS:	September 30, 2009	December 31, 2008
Cash and due from banks	$ 47,653	$ 12,925
Interest bearing deposits with banks	155	334
Federal funds sold	29,207	21,159
Total cash and cash equivalents	77,015	34,418
Investment securities available for sale, at fair value	102,108	83,032
Investment securities held to maturity, at amortized cost		
(Fair value of $170 and $214, respectively)	160	198
Restricted stock, at cost	6,836	6,836
Loans receivable (net of allowance for loan losses of		
$12,644 and $8,409, respectively)	697,073	774,673
Premises and equipment, net	24,729	14,209
Other real estate owned, net	10,847	8,580
Accrued interest receivable	3,428	3,939
Bank owned life insurance	12,312	12,118
Other assets	17,943	13,977
Total Assets	$ 952,451	$ 951,980
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Demand – non-interest-bearing	$ 92,017	$ 70,814
Demand – interest-bearing	47,418	43,044
Money market and savings	303,111	231,643
Time less than $100,000	141,597	139,708
Time over $100,000	239,495	253,958
Total Deposits	823,638	739,167
Short-term borrowings	-	77,309
FHLB Advances	25,000	25,000
Accrued interest payable	2,928	2,540
Other liabilities	5,626	6,161
Subordinated debt	22,476	22,476
Total Liabilities	879,668	872,653
Shareholders' Equity:		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized;		
no shares issued as of September 30, 2009 and December 31, 2008	-	-
Common stock par value $0.01 per share, 20,000,000 shares authorized;		
shares issued 11,081,938 as of September 30, 2009		
and 11,047,651 as of December 31, 2008	111	110
Additional paid in capital	77,001	76,629
Retained earnings (accumulated deficit)	(167)	8,455
Treasury stock at cost (416,303 shares)	(3,099)	(3,099)

Stock held by deferred compensation plan		(538)		(1,377)
Accumulated other comprehensive loss		(525)		(1,391)
Total Shareholders' Equity		72,783		79,327
Total Liabilities and Shareholders' Equity	$	952,451	$	951,980

(See notes to unaudited consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiary
Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2009 and 2008
(Dollars in thousands, except per share data)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest income:				
Interest and fees on loans	$ 9,705	$ 12,208	$ 29,558	$ 37,821
Interest and dividends on taxable investment securities	871	1,173	2,843	3,315
Interest and dividends on tax-exempt investment securities	109	106	325	326
Interest on federal funds sold and other interest-earning assets	28	45	50	199
Total interest income	10,713	13,532	32,776	41,661
Interest expense:				
Demand- interest bearing	78	68	218	283
Money market and savings	1,366	1,625	3,841	4,663
Time less than $100,000	1,035	1,671	3,395	5,900
Time over $100,000	928	1,545	3,249	5,925
Other borrowings	501	1,005	1,618	3,046
Total interest expense	3,908	5,914	12,321	19,817
Net interest income	6,805	7,618	20,455	21,844
Provision for loan losses	150	43	13,200	5,898
Net interest income after provision for loan losses	6,655	7,575	7,255	15,946
Non-interest income:				
Loan advisory and servicing fees	91	120	381	270
Service fees on deposit accounts	305	300	970	884
Mastercard transaction	-	-	-	309
Legal settlement	-	-	-	100
Gain on sale of investment security	-	-	-	5
Impairment charges on investment securities	(242)	-	(441)	-
Bank owned life insurance income	62	98	194	311
Other non-interest income	34	154	180	294
Total non-interest income	250	672	1,284	2,173
Non-interest expenses:				
Salaries and employee benefits	3,094	2,319	9,727	7,752
Occupancy	811	611	2,250	1,809
Depreciation and amortization	460	342	1,168	1,007
Legal	82	249	762	720
Write down/loss on sale of other real estate owned	105	559	1,424	1,615

Other real estate		83		163		235		505
Advertising		68		75		126		353
Data processing		148		214		630		620
Insurance		154		149		482		401
Professional fees		340		315		1,296		558
Regulatory assessments and costs		312		151		1,079		381
Taxes, other		246		207		744		719
Other operating expenses		797		654		2,481		2,077
Total non-interest expense		6,700		6,008		22,404		18,517
Income (Loss) before provision (benefit) for income taxes		205		2,239		(13,865)		(398)
Provision (benefit) for income taxes		20		706		(4,855)		(342)
Net income (loss)	$	185	$	1,533	$	(9,010)	$	(56)
Net income (loss) per share:								
Basic	$	0.02	$	0.14	$	(0.85)	$	(0.01)
Diluted	$	0.02	$	0.14	$	(0.85)	$	(0.01)

(See notes to unaudited consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders’ Equity
For the Nine Months Ended September 30, 2009 and 2008
(Dollars in thousands, except share data)
(unaudited)

	Comprehensive Loss	Common Stock	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Loss	Total Shareholders’ Equity
Balance January 1, 2009		$110	$76,629	$ 8,455	$(3,099)	$ (1,377)	$ (1,391)	$ 79,327
Total other comprehensive gain, net of tax of $785	1,254	–	–	–	–	–	1,254	1,254
Net loss	(9,010)	–	–	(9,010)	–	–	–	(9,010)
Total comprehensive loss	$ (7,756)							
Cumulative effect adjustment: Reclassify non-credit component of previously recognized OTTI		–	–	388	–	–	(388)	–
Share based compensation		–	207	–	–	–	–	207
Options exercised (34,287 shares)		1	165	–	–	–	–	166
Deferred compensation plan distribution		–	–	–	–	839	–	839
Balance September 30, 2009		$ 111	$ 77,001	$ (167)	$ (3,099)	$ (538)	$ (525)	$ 72,783

	Comprehensive	Common	Additional Paid in	Retained		Stock Held by	Accumulated Other	Total Shareholders’

	Loss	Stock	Capital	Earnings	Treasury Stock	Deferred Compensation Plan	Comprehensive Loss	Equity
Balance January 1, 2008		$ 107	$ 75,321	$ 8,927	$ (2,993)	$ (1,165)	$ 270	$ 80,467
Total other comprehensive loss, net of tax benefit of $(1,099)	(2,133)	–	–	–	–	–	(2,133)	(2,133)
Net loss	(56)	–	–	(56)	–	–	–	(56)
Total comprehensive loss	$ (2,189)							
Stock based compensation		–	94	–	–	–	–	94
Options exercised (294,402 shares)		3	882	–	–	–	–	885
Balance September 30, 2008		$ 110	$ 76,297	$ 8,871	$ (2,993)	$ (1,165)	$ (1,863)	$ 79,257

(See notes to unaudited consolidated financial statements)

Republic First Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2009 and 2008
Dollars in thousands
(unaudited)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Cash flows from operating activities:		
Net loss	$(9,010)	$(56)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	13,200	5,898
Write down or loss on sale of other real estate owned	1,424	1,615
Depreciation and amortization	1,168	1,007
Deferred compensation plan distribution	839	-
Share based compensation	207	94
Gain on sale of investment security	-	(5)
Impairment charges on investment securities	441	-
Amortization of discounts on investment securities	(161)	(168)
Increase in value of bank owned life insurance	(194)	(311)
Increase in accrued interest receivable and other assets	(4,000)	(627)
Decrease in accrued interest payable and other liabilities	(147)	(2,382)
Net cash provided by operating activities	3,767	5,065
Cash flows from investing activities:		
Purchase of securities:		
Available for sale	(29,985)	(16,366)
Proceeds from maturities and calls of securities:		
Held to maturity	38	79
Available for sale	12,428	10,621
Purchase of restricted stock	-	(43)
Net decrease in loans	60,348	21,514
Net proceeds from sale of other real estate owned	361	14,870
Premises and equipment expenditures	(11,688)	(4,130)
Net cash provided by investing activities	31,502	26,545
Cash flows from financing activities:		
Net proceeds from exercise of stock options	166	885
Net increase (decrease) in demand, money market and savings deposits	97,045	(7,705)
Net decrease in short term borrowings	(77,309)	(32,751)
Increase in other borrowings	-	25,000
Issuance of subordinated debt	-	11,135
Net decrease in time deposits	(12,574)	(43,663)
Net cash provided by (used in) financing activities	7,328	(47,099)
Increase (decrease) in cash and cash equivalents	42,597	(15,489)
Cash and cash equivalents, beginning of period	34,418	73,225
Cash and cash equivalents, end of period	$77,015	$57,736
Supplemental disclosure:		
Interest paid	$11,933	$20,716
Taxes paid	$-	$400

Non-monetary transfers from loans to other real estate owned	$4,052	$21,384

(See notes to unaudited consolidated financial statements)

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Definitive Agreement of Merger:

On November 7, 2008, the board of directors of Republic First Bancorp, Inc. ("the Company") approved an agreement and plan of merger, pursuant to which the Company will be merged with and into Metro Bancorp, Inc. ("Metro") formerly known as Pennsylvania Commerce Bancorp, Inc. ("Pennsylvania Commerce"), subject to the receipt of regulatory approvals and the satisfaction of other customary closing conditions. Approvals were obtained from the Company's shareholders on March 18, 2009 and Metro's shareholders on March 19, 2009. On April 29, 2009, Metro notified the Company of its extension, in accordance with the terms of the merger agreement, of a contractual deadline for the completion of the merger until July 31, 2009, in order to allow the parties additional time to obtain required regulatory approvals for the merger. On July 31, 2009, the Company and Metro entered into a First Amendment to Agreement and Plan of Merger, amending the November 7, 2008 Agreement and Plan of Merger between the parties. The First Amendment extended a contractual deadline for the completion of the merger of Republic First into Metro until October 31, 2009, and provided each party with a right to further extend the contractual deadline in the event that all required regulatory approvals for the merger had not been obtained by September 30, 2009. On October 29, 2009 the Company and Metro announced the extension of a contractual deadline until December 31, 2009.

Note 2: Nature of Operations:

The Company is a one-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. It is comprised of one wholly owned subsidiary, Republic First Bank ("Republic"), a Pennsylvania state chartered bank, and Republic's subsidiaries. Republic offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia and South Jersey area through its offices and store locations in Philadelphia, Montgomery, Delaware and Camden Counties. The Company also has three unconsolidated subsidiaries, which are statutory trusts established by the Company in connection with its sponsorship of three separate issuances of trust preferred securities.

Between January 2005 and August 2008, Republic engaged BSC Services Corporation ("BSC"), a former affiliate, to provide data processing, accounting, employee leasing, human resources, credit and compliance services. In August 2008, BSC discontinued its operations and many of its employees were transferred to the direct employ of Republic. BSC allocated costs of services to Republic on the basis of Republic's usage, and Republic classified such costs to the appropriate non-interest expense categories.

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

The Company and Republic are subject to federal and state regulations governing virtually all aspects of their activities, including but not limited to, lines of business, liquidity, investments, the payment of dividends, and others. Such regulations and the cost of adherence to such regulations can have a significant impact on earnings and financial condition.

Note 3: Summary of Significant Accounting Policies:

Basis of Presentation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The

FASB sets generally accepted accounting principles ("GAAP") that are followed to ensure consistent reporting of financial condition, results of operations, and cash flows. Over time, the FASB and other GAAP-setting bodies have issued standards in the form of FASB Statements, Interpretations, Staff Positions, EITF Abstracts, AICPA Statements of Position, and Practice Bulletins. The FASB recognized the complexity of its standard setting process and embarked on a revised process in 2004 that culminated in the release of the FASB Accounting Standards Codification ("ASC") on July 1, 2009. The ASC does not change how the Company accounts for its transactions or the nature of related disclosures made, nor does it impact the Company's financial position or results of operations. It simply took thousands of individual pronouncements that comprise GAAP and reorganized them under accounting topics using a consistent structure. References to GAAP in this Quarterly Report on Form 10-Q have been updated to refer to Topics in the ASC. This change was made effective by the FASB for periods ending on or after September 15, 2009.

The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to United States Securities and Exchange Commission ("SEC") Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements for a complete fiscal year. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three or nine month period ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

The Company has evaluated subsequent events through the date of issuance of the financial data included herein, November 9, 2009.

Risks and Uncertainties and Certain Significant Estimates:

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

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

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

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

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

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

In estimating impairment of restricted stock, management’s determination of whether these investments are impaired is based on the assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost is influenced by criteria such as (1) the significance of the decline in net assets of the Federal Home Loan Bank of Pittsburgh ("FHLB") and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and accordingly, on the customer base of the FHLB.

In evaluating our ability to recover deferred tax assets, management considers all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

Share-Based Compensation:

The Company maintains a Stock Option Plan and Restricted Stock Plan (the "Stock Option Plan"), under which the Company grants options to its employees, directors and independent contractors and consultants who perform services for the Company. Under terms of the Stock Option Plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the Stock Option Plan to 1.5 million shares, are reserved for such options. The Stock Option Plan provides that the exercise price of each option granted equals the market price of the Company's stock on the date of grant. Any options granted vest within one to five years and have a maximum term of 10 years. Unless otherwise provided in a grant letter, upon a change in control such as the completion of the proposed merger with Metro, all unvested options would immediately vest. Based on terms provided in various grant letters, 228,200 unvested options granted in 2008 and 2009 will not vest upon the completion proposed merger with Metro. Expense related to the acceleration of options that will vest at the time of the merger is estimated at $169,000 as of September 30, 2009.

The Black-Sholes option pricing model is utilized to determine the fair market value of stock options. In 2009, the following assumptions were utilized: a dividend yield of 0%; expected volatility of 21.58% to 27.61%; a risk-free interest rate of 1.99% to 3.31%; and an expected life of 7.0 years. In 2008 the following assumptions were utilized: a dividend yield of 0%; expected volatility of 24.98% to 34.52%; a risk-free interest rate of 3.08% to 3.69%; and an expected life of 7.0 years. A dividend yield of 0% is utilized, because cash dividends have never been paid. The expected life reflects a 3 to 4 year "all or nothing" vesting period, the maximum ten year term and review of historical behavior. The volatility was based on Bloomberg's seven year volatility calculation for "FRBK" stock. The risk-free interest rate is based on the seven year Treasury bond. 6,050 shares vested in the first quarter of 2009. Expense is recognized ratably over the period required to vest. There were 236,350 unvested options at January 1, 2009 with a fair value of $827,755 with $599,551 of that amount remaining to be recognized as expense. At September 30, 2009, there were 359,500 unvested options with a fair value of $1,048,760 with $646,765 of that amount remaining to be recognized as expense. At that date, the intrinsic value of the 562,758 options outstanding was $21,662, while the intrinsic value of the 203,258 exercisable (vested) was also $21,662.

A summary of the status of the Company's stock options under the Stock Option Plan as of September 30, 2009 and 2008 and changes during the nine months ended September 30, 2009 and 2008 are presented below:

	For the Nine Months Ended September 30, 2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	467,988	$8.33	737,841	$6.39
Granted	129,200	6.28	105,000	6.62
Exercised	(34,287)	4.84	(294,042)	3.01
Forfeited	(143)	3.88	(113,327)	8.90
Outstanding, end of period	562,758	8.08	435,472	8.07
Options exercisable at period-end	203,258	8.21	264,922	7.47
Weighted average fair value of options granted during the period		$2.12		$2.47

	For the Nine Months Ended September 30, 2009	2008
Number of options exercised	34,287	294,042
Cash received	$ 165,950	$ 884,615
Intrinsic value	101,011	862,833
Tax benefit	35,354	301,992

The following table summarizes information about options outstanding under the Stock Option Plan as of September 30, 2009.

	Options outstanding			Options exercisable	
Range of Exercise Prices	Shares	Weighted Average remaining contractual life (years)	Weighted Average exercise price	Shares	Weighted Average Exercise Price
$1.81	7,453	1.3	$ 1.81	7,453	$ 1.81
$2.77	743	2.4	2.77	743	2.77
$5.70 to $8.72	389,153	8.1	7.04	87,953	6.25
$9.93 to $12.13	165,409	6.3	10.82	107,109	10.31
	562,758		$ 8.08	203,258	$ 8.21

For the Nine Months Ended, September 30, 2009	
Number of shares	Weighted average

		grant date fair value
Nonvested at beginning of year	236,350	$ 3.50
Granted	129,200	2.12
Vested	(6,050)	5.10
Nonvested at end of period	359,500	$ 2.92

During the three months ended September 30, 2009, $70,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the nine months ended September 30, 2009, $207,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the three months ended September 30, 2008, $19,000 was recognized in compensation expense, with a 35% assumed tax benefit, for the Stock Option Plan. During the nine months ended September 30, 2008, $94,000 was recognized in compensation expense, with a 35% assumed tax benefit for the Stock Option Plan.

Note 4: Recent Accounting Pronouncements

In August 2009, the FASB issued Accounting Standards Update ("ASU") 2009-05, Measuring Liabilities at Fair Value, which updates ASC 820-10, Fair Value Measurements and Disclosures. The updated guidance clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when it trades as an asset in an active market, without adjusting the price for restrictions that prevent the sale of the liability. This guidance is effective beginning October 1, 2009 and is not expected to affect the Company's consolidated financial statements.

In June 2009, the FASB issued new guidance impacting ASC 860, Transfers and Servicing (SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140). This guidance prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. This guidance also modifies the de-recognition conditions related to legal isolation and effective control and adds additional disclosure requirements for transfer of financial assets. This guidance is effective for fiscal years beginning after November 15, 2009. We have not determined the effect that the adoption of this guidance will have on our financial position or results of operations.

In June 2009, the FASB issued new guidance impacting ASC 810-10, Consolidation (SFAS No. 167, Amendments to FASB Interpretation No. 46R). This guidance requires a company to determine whether its variable interest or interests gives it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the company that has both (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity. The guidance also amends existing consolidation guidance that required ongoing re-assessments of whether a company is the primary beneficiary of a variable interest entity. This guidance is effective for fiscal years beginning after November 15, 2009. We have not determined the effect that the adoption of this guidance will have on our financial position or results of operations.

In June 2009, the FASB issued ASC 105-10, Generally Accepted Accounting Principles (SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162). This new guidance establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. This standard is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard had no impact on our financial position or results of operations.

In April 2009, the FASB issued new guidance impacting ASC 820, Fair Value Measurement and Disclosures (FASB Staff Position No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly). This provides additional guidance on determining fair value when the volume and level of activity for an asset or liability have significantly decreased when compared with normal market activity for the asset or liability. A significant decrease in the volume or level of activity is an indication that transactions or quoted market prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. The guidance was effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on our consolidated financial statements or results of operations.

In April 2009, the FASB issued new guidance impacting ASC 320-10, Investments – Debt and Equity Securities (FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments). This guidance amends the other-than-temporary impairment guidance for debt securities. If the fair value of a debt security is less than its amortized cost basis at the measurement date, the updated guidance requires the company to determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, an entity must recognize full impairment. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the guidance requires that the credit loss portion of impairment be recognized in earnings and the temporary impairment related to all other factors be recorded in other comprehensive income. In addition, the guidance requires additional disclosures regarding impairments on debt and equity securities The Company adopted this guidance effective April 1, 2009 and in connection therewith, recorded a credit loss of $418,000 during the six month period ending September 30, 2009.

Note 5: Legal Proceedings

The Company and Republic are from time to time parties (plaintiff or defendant) to lawsuits in the normal course of business. While any litigation involves an element of uncertainty, management, after reviewing pending actions with its legal counsel, is of the opinion that the liability of the Company and Republic, if any, resulting from such actions will not have a material effect on the financial condition or results of operations of the Company and Republic.

On or about June 19, 2009, Members 1st Federal Credit Union ("Members 1st") filed a complaint in the United States District Court for the Middle District of Pennsylvania against the Company, Republic, Metro Bancorp, Inc. and Metro Bank (collectively referred to as "Metro"). Members 1st's claims are for federal trademark infringement, federal unfair competition, and common law trademark infringement and unfair competition. It is Members 1st's assertion that Metro's use of a red letter "M" alone, or in conjunction with its trade name METRO, purportedly infringes Members 1st's federally registered and common law trademark for the mark MIST (stylized). The complaint seeks damages in an unspecified amount and injunctive relief. The Company and Republic are named in the complaint in connection with the pending merger with Metro.

Note 6: Segment Reporting

The Company has one reportable segment: community banking. The community bank segment primarily encompasses the commercial loan and deposit activities of Republic, as well as consumer loan products in the area surrounding its stores.

Note 7: Earnings Per Share:

Earnings per share ("EPS") consists of two separate components: Basic EPS and Diluted EPS. Basic EPS is computed by dividing net income (loss) by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents ("CSEs"). CSEs consist of dilutive stock options granted through the Stock Option Plan and convertible securities related to an issuance of trust preferred securities sponsored by the Company in June 2008. In the diluted EPS computation, the after tax interest expense on that trust preferred securities issuance is added back to the net income (loss). For the three months ended September 30, 2009, nine months ended September 30, 2009 and nine months ended September 30, 2008, the effect of CSEs and the related add back of after tax interest expense was anti-dilutive. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. CSEs which are anti-dilutive are not included in the following calculation. For the three months ended September 30, 2008, there were 198,495 stock options to purchase common stock, which were excluded from the computation of earnings per share because the option price was greater than the average market price. For the three months ended September 30, 2009, the Company included no stock options in calculating diluted EPS as the effect of the add back of after tax interest related to the trust preferred securities issuance to net income was anti-dilutive. For the nine months ended September 30, 2009 and nine months ended September 30, 2008, the Company included no stock options in calculating diluted EPS due to a net loss from operations.

The following tables are a comparison of EPS for the three months ended September 30, 2009 and 2008.

Three months ended September 30,	2009		2008	
Net Income	$185,000		$1,533,000	
(numerator for basic and diluted earnings per share)		Per		Per
	Shares	Share	Shares	Share
Weighted average shares for period (denominator for basic earnings per share)	10,665,635		10,581,435	
Earnings per share - basic		$0.02		$0.14
Add common stock equivalents representing dilutive stock options and convertible debt	-		1,728,926	
Effect on basic EPS of dilutive CSE		$-		$-
Weighted average shares outstanding	10,665,635		12,310,361	
Income per share - diluted		$0.02		$0.14

The following tables are a comparison of EPS for the nine months ended September 30, 2009 and 2008.

Nine months ended September 30,	2009		2008	
Net Loss	$(9,010,000)		$(56,000)	
(numerator for basic and diluted earnings per share)		Per		Per
	Shares	Share	Shares	Share
Weighted average shares for period (denominator for basic earnings per share)	10,650,995		10,463,331	
Loss per share - basic		$(0.85)		$(0.01)
Add common stock equivalents representing dilutive stock options	-		-	
Effect on basic EPS of dilutive CSE		$-		$-
Weighted average shares outstanding	10,650,995		10,463,331	
Loss per share - diluted		$(0.85)		$(0.01)

Note 8: Comprehensive Income:

The Company presents as a component of comprehensive income (loss) the amounts from transactions and other events which currently are excluded from the consolidated statements of operation and are recorded directly to shareholders' equity. These amounts consist of unrealized holding gains (losses) on available for sale securities.

The components of comprehensive income (loss), net of related tax, are as follows (in thousands):

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Net income (loss)	$185	$1,533	$(9,010)	$(56)
Other comprehensive income (loss):				
Unrealized gains (losses) on investment securities: arising during the period, net of tax expense (benefit) of $597, $(493), $544, and $(1,099)	1,066	(956)	971	(2,133)
Add: reclassification adjustment for impairment charge included in net income (loss), net of tax benefit of $87, $ -, $158 and $ -	155	-	283	-
Other comprehensive income (loss)	1,221	(956)	1,254	(2,133)
Comprehensive income (loss)	$1,406	$577	$(7,756)	$(2,189)

Note 9: Investment Securities:

Investment securities available for sale as of September 30, 2009 are as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage Backed Securities	$48,217	$2,640	$(1)	$50,856
Municipal Securities	10,261	292	(362)	10,191
Corporate Bonds	5,989	117	-	6,106
Agency Bonds	29,985	-	-	29,985
Trust Preferred Securities	8,193	-	(3,476)	4,717
Other Securities	281	2	(30)	253
Total	$102,926	$3,051	$(3,869)	$102,108

Investment securities held to maturity as of September 30, 2009 are as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$2	$-	$-	$2
Municipal Securities	5	-	-	5
Other Securities	153	10	-	163
Total	$160	$10	$-	$170

Investment securities available for sale as of December 31, 2008 are as follows:

		Gross	Gross	

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mortgage Backed Securities	$60,859	$1,821	$(4)	$62,676
Municipal Securities	10,073	15	(963)	9,125
Corporate Bonds	5,988	59	(4)	6,043
Trust Preferred Securities	8,003	-	(3,071)	4,932
Other Securities	279	7	(30)	256
Total	$85,202	$1,902	$(4,072)	$83,032

Investment securities held to maturity as of December 31, 2008 are as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government Agencies	$3	$-	$-	$3
Mortgage Backed Securities	15	1	-	16
Municipal Securities	30	-	-	30
Other Securities	150	15	-	165
Total	$198	$16	$-	$214

The maturity distribution of the amortized cost and estimated market value of investment securities by contractual maturity at September 30, 2009 is as follows:

	Available for Sale		Held to Maturity	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$150	$152	$-	$-
After 1 year to 5 years	10,080	10,085	113	123
After 5 years to 10 years	23,110	23,243	2	2
After 10 years	69,586	68,628	5	5
No stated maturity	–	–	40	40
Total	$102,926	$102,108	$160	$170

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

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that the investor will be required to sell the debt security prior to its anticipated recovery, ASC 320-10 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. The adoption of updated guidance under ASC 320-10 had an impact on the amounts reported in the consolidated financial statements as impairment charges (credit losses) on bank pooled trust preferred securities of $242,000 and $418,000 were recognized during the quarter ended September 30, 2009 and the nine months ended September 30, 2009, respectively. In addition, a cumulative effect adjustment of $388,000 was recorded during the current year to reclassify the non-credit component of previously recognized OTTI within shareholders' equity between retained earnings and accumulated other comprehensive loss. The June 30, 2009 cumulative effect adjustment of $537,000 was reduced by $149,000 during the current quarter related to the ongoing evaluation of the assumptions and estimates used to determine the fair value of the bank pooled trust preferred securities.

The Company realized gross losses due to impairment charges on securities of $242,000 for the three months ended September 30, 2009 and $441,000 for the nine months ended September 30, 2009. The tax benefit applicable to the gross losses was $87,000 for third quarter 2009 and $158,000 for the nine months ended September 30, 2009. The Company realized gross gains on the sale of securities of $5,000 for the nine months ended September 30, 2008. The tax provision applicable to gross gains in 2008 amounted to approximately $2,000.

Temporarily impaired securities as of September 30, 2009 are as follows:

(Dollars in thousands)	Less than 12 months		12 Months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Description of Securities	Value	Losses	Value	Losses	Value	Losses
Mortgage Backed Securities	$-	$-	$93	$1	$93	$1
Municipal Securities	-	-	4,021	362	4,021	362
Corporate Bonds	-	-	-	-	-	-
Agency Bonds	-	-	-	-	-	-
Trust Preferred Securities	-	-	4,717	3,476	4,717	2,872
Other Securities	-	-	101	30	101	30
Total Temporarily Impaired Securities	$-	$-	$8,932	$3,869	$8,932	$3,265

The impairment of the investment portfolio at September 30, 2009 totaled $3.9 million on 27 securities with a total fair value of $8.9 million at September 30, 2009. The unrealized loss for the bank pooled trust preferred securities was due to the secondary market for such securities becoming inactive and was considered temporary at September 30, 2009. The unrealized loss on the remaining securities was due to changes in market value resulting from changes in market interest rates and is considered temporary.

Temporarily impaired securities as of December 31, 2008 are as follows:

(Dollars in thousands)	Less than 12 months		12 Months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Description of Securities	Value	Losses	Value	Losses	Value	Losses
US Government Agencies	$-	$-	$-	$-	$-	$-
Mortgage Backed Securities	-	-	114	4	114	4
Municipal Securities	-	-	6,908	963	6,908	963
Corporate Bonds	-	-	1,991	4	1,991	4
Trust Preferred Securities	-	-	3,371	3,071	3,371	3,071
Other Securities	-	-	60	30	60	30
Total Temporarily Impaired Securities	$-	$-	$12,444	$4,072	$12,444	$4,072

The impairment of the investment portfolio at December 31, 2008 totaled $4.1 million on 36 securities with a total fair value of $12.4 million at December 31, 2008. The unrealized loss for the bank pooled trust preferred securities was due to the secondary market for such securities becoming inactive and was considered temporary at December 31, 2008. The unrealized loss on the remaining securities was due to changes in market value resulting from changes in market interest rates and is considered temporary.

Note 10: Loans Receivable:

The following table sets forth the Company's gross loans by major categories for the periods indicated:

(Dollars in thousands)	As of September 30, 2009		As of December 31, 2008	
	Balance	% of Total	Balance	% of Total
Commercial	$ 85,881	12.1 %	$ 97,777	12.5 %

Owner occupied		78,527		11.1	%		71,821	9.2	%
Total commercial		164,408		23.2	%		169,598	21.7	%
Consumer & residential		20,586		2.9	%		27,915	3.5	%
Commercial real estate		524,723		73.9	%		585,569	74.8	%
Total loans		709,717		100.0	%		783,082	100.0	%
Less: allowance for loan losses		(12,644	)				(8,409)		
Net loans	$	697,073				$	774,673		

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The recorded investment in loans which are impaired in accordance with ASC 310, totaled $142.0 million and $18.3 million at September 30, 2009 and December 31, 2008, respectively. The amounts of related valuation allowances were $7.1 million and $2.4 million respectively at those dates. There were no impaired loans at December 31, 2008, for which a specific reserve was recorded. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

The significant increase in impaired loans and related valuation allowances at September 30, 2009 compared to December 31, 2008 was primarily due to a recently completed comprehensive internal, external, and regulatory review of the Company's loan portfolio and reflected the continued decline of collateral values within the Company's commercial real estate portfolio and a change in its methodology for calculating potential loan losses inherent in its loan portfolio coupled with a more conservative loan classification system.

As of September 30, 2009 and December 31, 2008, there were loans of approximately $18.6 million and $17.3 million respectively, which were classified as non-accrual. There were no loans past due 90 days and accruing at September 30, 2009 and December 31, 2008.

Note 11: Fair Value Measurements and Fair Value of Financial Instruments:

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

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

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

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2009 and December 31, 2008 are as follows:

Description (In Thousands)	September 30, 2009	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Securities available for sale	$102,108	$-	$97,391	$ 4,717

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)				
Securities available for sale	$83,032	$-	$78,100	$ 4,932

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

	2009 (In Thousands)
Beginning Balance, January 1,	$ 4,932
Unrealized gains arising during 2009	226
Impairment charges on Level 3 security	(441)
Ending balance, September 30,	$ 4,717

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2009 and December 31, 2008 are as follows:

Description	September 30, 2009	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In thousands)				
Impaired loans	$ 134,942	$ -	$ -	$ 134,942
Other real estate owned	$ 10,847	$ -	$ -	$ 10,847

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In thousands)				
Impaired loans	$ 15,934	$ -	$ -	$ 15,934
Other real estate owned	$ 8,580	$ -	$ -	$ 8,580

The recorded investment in impaired loans totaled $142.0 million at September 30, 2009 and $18.3 million at December 31, 2008. The amounts of related valuation allowances were $7.1 million and $2.4 million respectively at those dates.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at September 30, 2009 and December 31, 2008:

Cash and Cash Equivalents (Carried at Cost)

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

Investment Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

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

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, and may be adjusted to reflect illiquidity and/or non-transferability, with such adjustment generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

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

A third party pricing service was used in the development of the fair market valuation. The calculations used to determine fair value are based on the attributes of the bank pooled trust preferred securities, the financial condition of the issuers of the bank pooled trust preferred securities, and market based assumptions. The INTEX CDO Deal Model Library was utilized to obtain information regarding the attributes of each security and its specific collateral as of December 31, 2008. Financial information on the issuers was also obtained from Bloomberg, the FDIC and the Office of Thrift Supervision. Both published and unpublished industry sources were utilized in estimating fair value. Such information includes loan prepayment speed assumptions, discount rates, default rates, and loss severity percentages. Due to the current state of the global capital and financial markets, the fair market valuation is subject to greater uncertainty that would otherwise exist.

Fair market valuation for each security was determined based on discounted cash flow analyses. The cash flows are primarily dependent on the estimated speeds at which the bank pooled trust preferred securities are expected to prepay, the estimated rates at which the bank pooled trust preferred securities are expected to defer payments, the estimated rates at which the bank pooled trust preferred securities are expected to default, and the severity of the losses on securities which default.

Prepayment Assumptions. Due to the lack of new bank pooled trust preferred issuances and the relativity poor conditions of the financial institution industry, the rate of voluntary prepayments are estimated at 0%.

Prepayments affect the securities in three ways. First, prepayments lower the absolute amount of excess spread, an important credit enhancement. Second, the prepayments are directed to the senior tranches, the effect of which is to increase the overcollateralization of the mezzanine layer, the layer at which the Company is located in each of the securities. However, the prepayments can lead to adverse selection in which the strongest institutions have prepaid, leaving the weaker institutions in the pool, thus mitigating the effect of the increased overcollateralization. Third, prepayments can limit the numeric and geographic diversity of the pool, leading to concentration risks.

Deferral and Default Rates. Bank pooled trust preferred securities include a provision that allows the issuing bank to defer interest payments for up to five years. The estimates for the rates of deferral are based on the financial condition of the trust preferred issuers in the pool. Estimates for the conditional default rates are based on the bank pooled trust preferred securities themselves as well as the financial condition of the trust preferred issuers in the pool.

Estimates for the near-term rates of deferral and conditional default are based on key financial ratios relating to the financial institutions’ capitalization, asset quality, profitability and liquidity. Each bank in each security is evaluated based on ratings from outside services including Standard & Poors, Moodys, Fitch, Bankrate.com and The Street.com. Recent stock price information is also considered, as well as the 52 week high and low, for each bank in each security. Finally, the receipt of TARP funding is considered, and if so, the amount.

Estimates for longer term rates of deferral and defaults are based on historical averages based on a research report issued by Salomon Smith Barney in 2002. Default is defined as any instance when a regulator takes an active role in a bank’s operations under a supervisory action. This definition of default is distinct from failure. A bank is considered to have defaulted if it falls below minimum capital requirements or becomes subject to regulatory actions including a written agreement, or a cease and desist order. The rates of deferral and conditional default are estimated at 0.36%.

Loss Severity. The fact that an issuer defaults on a loan, does not necessarily mean that the investor will lose all of their investment. Thus, it is important to understand not only the default assumption, but also the expected loss given a default, or the loss severity assumption. Both Standard & Poors and Moody’s Analytics have performed and published research that indicates that recoveries on bank pooled trust preferred securities are low (less than 20%). The loss severity estimates are estimated at a range of 80% to 100%.

Ratings Agencies. The major ratings agencies have recently been cutting the ratings on various bank pooled trust preferred securities

Bond Waterfall. The bank pooled trust preferred securities have several tranches: Senior tranches, Mezzanine tranches and the Residual or income tranches. The Company invested in the mezzanine tranches for all of its bank pooled trust preferred securities. The Senior and Mezzanine tranches were over collateralized at issuance, meaning that the par value of the underlying collateral was more than the balance issued on the tranches. The terms generally provide that if the performing collateral balances fall below certain triggers, then income is diverted from the residual tranches to pay the Senior and Mezzanine tranches. However, if significant deferrals occur, income could also be diverted from the Mezzanine tranches to pay the Senior tranches.

Internal Rate of Return. Internal rates of return are the pre-tax yield rates used to discount the future cash flow stream expected from the collateral cash flow. The marketplace for the bank pooled trust preferred securities at September 30, 2009 and December 31, 2008 was not active. This is evidenced by a significant widening of the bid/ask spreads the markets in which the bank pooled trust preferred securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive.

ASC 820-10 provides guidance on the discount rates to be used when a market is not active. The discount rate should take into account the time value of money, price for bearing the uncertainty in the cash flows and other case specific factors that would be considered by market participants, including a liquidity adjustment. The discount rate used is a LIBOR 3-month forward looking curve plus 700 basis points.

Loans Receivable (Carried at Cost)

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

Other Real Estate Owned (Carried at Market Value)

These assets are carried at the lower of cost or market. At September 30, 2009 and December 31, 2008 these assets are carried at current market value.

Restricted Stock (Carried at Cost)

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

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposit Liabilities (Carried at Cost)

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

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

FHLB Advances (Carried at Cost)

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

Subordinated Debt (Carried at Cost)

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

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

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

The estimated fair values of the Company's financial instruments were as follows at September 30, 2009 and December 31, 2008.

	September 30, 2009		December 31, 2008	
(Dollars in Thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance Sheet Data:				
Financial Assets:				
Cash and cash equivalents	$77,015	$77,015	$34,418	$34,418
Investment securities available for sale	102,108	102,108	83,032	83,032
Investment securities held to maturity	160	170	198	214
Restricted stock	6,836	6,836	6,836	6,836
Loans receivable, net	697,073	693,679	774,673	774,477
Bank owned life insurance	12,312	12,312	12,118	12,118
Accrued interest receivable	3,428	3,428	3,939	3,939
Financial Liabilities:				
Deposits:				
Demand, savings and money market	$442,546	$442,546	$345,501	$345,501
Time	381,092	379,549	393,666	395,570
Subordinated debt	22,476	22,476	22,476	22,476
Short-term borrowings	-	-	77,309	77,309
FHLB advances	25,000	25,291	25,000	26,031
Accrued interest payable	2,928	2,928	2,540	2,540
Off Balance Sheet financial instruments:				
Commitments to extend credit	82,425	82,425	83,073	83,073
Standby letters-of-credit	4,355	4,355	5,314	5,314

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

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

Certain statements in this report may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "may," "believes," "expect," "estimate," "project," "anticipate," "should," "intend," "probability," "risk," "target," "objective" and similar e variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; new service and product offerings by competitors and price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof, except as may be required by applicable laws or regulations. Readers should carefully review the risk factors described in other documents the Company files from time to time with the SEC, including the Company's Annual Report on Form 10-K for the year ended December 31, 2008, Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K, as well as other filings.

Financial Condition:

September 30, 2009 Compared to December 31, 2008

Assets increased $471,000 to $952.5 million at September 30, 2009, compared to $952.0 million at December 31, 2008. This increase reflected a $42.6 million increase in cash and cash equivalents, a $19.1 million increase in investment securities, and a $10.5 million increase in premises and equipment offset by a $77.6 million decrease in loans receivable.

Loans:

The loan portfolio represents the Company's largest asset category and is its most significant source of interest income. The Company's lending strategy is focused on small and medium size businesses and professionals that seek highly personalized banking services. Gross loans decreased $73.4 million, to $709.7 million at September 30, 2009, compared to $783.1 million at December 31, 2008. Substantially all of the decrease resulted from a decrease in commercial real estate loans as a result of the Company's ongoing effort to reduce exposure to commercial real estate and reposition its portfolio.

Investment Securities:

Investment securities available-for-sale are investments which may be sold in response to changing market and interest rate conditions, and for liquidity and other purposes. The Company's investment securities available-for-sale consist primarily of U.S. Government Agency issued mortgage-backed securities, municipal securities, corporate bonds, and bank pooled trust preferred securities. Available-for-sale securities totaled $102.1 million at September 30, 2009, compared to $83.0 million at year-end 2008. At September 30, 2009 and December 31, 2008, the portfolio had net unrealized losses of $818,000 and $2.2 million, respectively.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The held-to-maturity portfolio consists primarily of debt securities and stocks. At September 30, 2009 and year-end 2008, securities held to maturity totaled $160,000 and $198,000 respectively.

Restricted Stock:

Republic is a member of the Federal Home Loan Bank of Pittsburgh ("FHLB") and, as such, had been required to maintain stock in FHLB in proportion to its outstanding FHLB advances notwithstanding paydown of those advances, prior to the FHLB suspension of dividend payments in 2008. Since that suspension of dividend payments, the restricted stock has been frozen, therefore, at both September 30, 2009 and December 31, 2008, FHLB stock totaled $6.7 million.

Management evaluates the restricted stock for impairment in accordance with guidance under ASC 942-10 Financial Services – Depository and Lending. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the restricted stock as of September 30, 2009 and December 31, 2008.

Republic is also required to maintain stock in Atlantic Central Bankers Bank ("ACBB"), which is also classified as restricted, as a condition of a rarely used contingency line of credit. At both September 30, 2009 and December 31, 2008, ACBB stock totaled $143,000.

Cash and Cash Equivalents:

Cash and due from banks, interest bearing deposits and federal funds sold comprise this category which consists of the Company's most liquid assets. The aggregate amount in these three categories increased by $42.6 million, to $77.0 million at September 30, 2009, from $34.4 million at December 31, 2008, primarily reflecting a $34.7 million increase in cash and due from banks.

Fixed Assets:

The balance in premises and equipment, net of accumulated depreciation, was $24.7 million at September 30, 2009, compared to $14.2 million at December 31, 2008, reflecting primarily renovations on existing store locations as well as future store expansion.

Other Real Estate Owned:

Other real estate owned amounted to $10.8 million at September 30, 2009 compared to $8.6 million at December 31, 2008, primarily reflecting two transfers related to loans of $4.1 million, partially offset by write-downs totaling $1.4 million and proceeds from sales totaling $361,000.

Bank Owned Life Insurance:

The balance of bank owned life insurance amounted to $12.3 million at September 30, 2009 and $12.1 million at December 31, 2008. The income earned on these policies is reflected in non-interest income.

Other Assets:

Other assets increased by $4.0 million to $17.9 million at September 30, 2009, from $14.0 million at December 31, 2008, prim