

REPUBLIC FIRST BANCORP INC
Form 10-K/A
March 23, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
(*fee required*)

For the fiscal year ended December 31, 2005

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
(*no fee required*)

For the transition period from _____ to _____
Commission file number: 000-17007

REPUBLIC FIRST BANCORP, INC.

(Exact name of registrant as specified in charter)

Pennsylvania
(State or Other Jurisdiction of
Incorporation or Organization)

23-2486815
(I.R.S. Employer
Identification No.)

**1608 Walnut Street, Suite
1000, Philadelphia, PA**
(Address of Principal
Executive offices)

19103
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.01 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ___ NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act.
YES ___ NO

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

YES NO ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ___ Accelerated filer Non-accelerated filer ___

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

YES ___ NO

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2005. The aggregate market value of \$84,470,525 was based on the average of the bid and asked prices on the National Association of Securities Dealers Automated Quotation System on June 30, 2005.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

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

**Common Stock \$0.01
Par Value**

8,756,462

Title of Class

Number of Shares
Outstanding as of March 1,
2006

Documents incorporated by reference

Part III incorporates certain information by reference from the registrant's Proxy Statement for the 2006 Annual Meeting of Shareholders to be held on April 25, 2006.

EXPLANATION

This Form 10K-A is being filed for Form 10K for the year ended December 31, 2005, originally filed on March 16, 2006. It is being filed solely to correct typographical errors in the signing dates of Grant Thornton's Report of Independent Registered Public Accounting Firm and of Exhibit 23.1 - Consent of Beard Miller Company LLP, as well as the wording of Exhibits 31.1 and 31.2 - Certifications pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002.

PART IV

Item 15: Exhibits and Financial Statements

A. Financial Statements

- (1) Management's Report on Internal Control Over Financial Reporting
- (2) Reports of Independent Registered Public Accounting Firms
- (3) Consolidated Balance Sheets as of December 31, 2005 and 2004
- (4) Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003
- (5) Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003
- (6) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003
- (7) Notes to Consolidated Financial Statements

B. Exhibits

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

All other schedules and exhibits are omitted because they are not applicable or because the required information is set out in the financial statements or the notes thereto.

<u>Exhibit Number</u>	<u>Description</u>	<u>Manner of Filing</u>
3.1	Amended and Restated Articles of Incorporation of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-K Filed March 30, 2005
3.2	Amended and Restated By-Laws of Republic First Bancorp, Inc.	Incorporated by reference to Form 10-K Filed March 30, 2005
10.1	Employment Contract Between the Company and Harry D. Madonna*	Incorporated by reference to Form 10-Q/A Filed February 7,

2005

- | | | |
|------|---|--|
| 10.2 | Amended and Restated Stock Option Plan and Restricted Stock Plan* | Incorporated by reference to Form S-8 Filed March 26, 2001 |
| 10.3 | Deferred Compensation Plan* | Incorporated by reference to Form 10-Q Filed November 15, 2004 |
| 10.4 | Human Resources and Payroll Services Agreement between Republic First Bank and BSC Services Corp. dated January 1, 2005 | Incorporated by reference to Form 10-K Filed March 30, 2005 |
| 10.5 | Operation and Data Processing Services Agreement between Republic First Bank and BSC Services Corp. dated January 1, 2005 | Incorporated by reference to Form 10-K Filed March 30, 2005 |
| 10.6 | Compliance Services Agreement between Republic First Bank and BSC Services Corp. dated January 1, 2005 | Incorporated by reference to Form 10-K Filed March 30, 2005 |

10.7	Financial Accounting and Reporting Services Agreement between Republic First Bank and BSC Services Corp. dated January 1, 2005	Incorporated by reference to Form 10-K Filed March 30, 2005
21.1	Subsidiaries of the Company	Filed Herewith
23.1	Consent of Beard Miller Company LLP	Filed Herewith
23.2	Consent of Grant Thornton LLP	Filed Herewith
31.1	Certification of Chairman and Chief Executive Officer of Republic First Bancorp, Inc. pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	Certification of Executive Vice President and Chief Financial Officer of Republic First Bancorp, Inc. pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	Certification under Section 906 of the Sarbanes Oxley Act of Harry D. Madonna.	Filed Herewith
32.2	Certification under Section 906 of the Sarbanes Oxley Act of Paul Frenkiel.	Filed Herewith

* Constitutes a compensation agreement or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Philadelphia, Commonwealth of Pennsylvania.

REPUBLIC FIRST BANCORP, INC. [registrant]

Date: March 14, 2006

By: /s/ Harry D. Madonna
Harry D. Madonna
Chairman, President and
Chief Executive Officer

Date: March 14, 2006

By: /s/ Paul Frenkiel
Paul Frenkiel,
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Date: March 14, 2006 /s/ Harris Wildstein, Esq.
Harris Wildstein, Esq.,
Director

/s/ Neal I. Rodin
Neal I. Rodin, Director

/s/ Steven J. Shotz
Steven J. Shotz, Director

/s/ Harry D. Madonna
Harry D. Madonna,
Director and Chairman of
the Board

/s/ Louis J. DeCesare, Jr.
Louis J. DeCesare, Jr.,
Director

/s/ William Batoff
William Batoff, Director

/s/ Robert Coleman
Robert Coleman, Director

/s/ Barry L. Spevak
Barry L. Spevak, Director

/s/ Lyle W. Hall
Lyle W. Hall, Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPUBLIC FIRST BANCORP, INC.

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Management's Report on Internal Control Over Financial Reporting

Management of Republic First Bancorp, Inc. (the "Company") is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control - Integrated Framework, management of the Company has concluded the Company maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rules 13a-15(f), as of December 31, 2005.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management.

The consolidated financial statements of the Company have been audited by Beard Miller Company LLP, an independent registered public accounting firm, who was engaged to express an opinion as to the fairness of presentation of such financial statements. In connection therewith, Beard Miller Company LLP is required to issue an attestation report on management's assessment of internal control over financial reporting and, in addition, is required to form its own opinion as to the effectiveness of those controls. Their opinion on the fairness of the financial statement presentation, and their attestation and opinion on internal controls over financial reporting are included herein.

Date: March 14, 2006

By:/s/ Harry D. Madonna
Harry D. Madonna
Chairman, President and
Chief Executive Officer

Date: March 14, 2006

By:/s/ Paul Frenkiel
Paul Frenkiel,
Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Republic First Bancorp, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Republic First Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Republic First Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Republic First Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Republic First Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Republic First Bancorp, Inc. and subsidiary as of December 31, 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year ended December 31, 2005 and our report dated March 14, 2006 expressed an unqualified opinion.

/s/ Beard Miller Company LLP
Reading, Pennsylvania
March 14, 2006

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Republic First Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Republic First Bancorp, Inc., and subsidiary as of December 31, 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Republic First Bancorp, Inc., and subsidiary as of December 31, 2005, and the results of their operations and their cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Republic First Bancorp, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2006, expressed an unqualified opinion on management's assessment of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ Beard Miller Company LLP
Reading, Pennsylvania
March 14, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and
Shareholders of Republic First Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of Republic First Bancorp, Inc. and Subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Republic First Bancorp, Inc. and Subsidiaries as of December 31, 2004, and the consolidated results of their operations and their consolidated cash flows for each of the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania

March 24, 2005 (except for Note 20, as to which the date is March 14, 2006)*

* Adjusted for typographical error

**REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

December 31, 2005 and 2004

(Dollars in thousands, except per share data)

	2005	2004
ASSETS:		
Cash and due from banks	\$ 19,985	\$ 15,900
Interest bearing deposits with banks	768	3,641
Federal funds sold	86,221	17,162
Total cash and cash equivalents	106,974	36,703
Other interest-earning restricted cash	-	2,923
Investment securities available for sale, at fair value	37,283	43,733
Investment securities held to maturity, at amortized cost (fair value of \$570 and \$813 respectively)	559	792
Federal Home Loan Bank stock, at cost	6,319	4,635
Loans receivable, (net of allowance for loan losses of \$7,617 and \$6,684 respectively)	670,469	543,005
Premises and equipment, net	3,598	3,625
Other real estate owned, net	137	137
Accrued interest receivable	3,784	3,390
Bank owned life insurance	10,926	10,595
Other assets	10,806	15,266
Assets of First Bank of Delaware discontinued operations	-	55,608
Total Assets	\$ 850,855	\$ 720,412
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Demand — non-interest-bearing	\$ 88,862	\$ 97,790
Demand — interest-bearing	69,940	54,762
Money market and savings	223,129	170,980
Time less than \$100,000	128,022	99,690
Time over \$100,000	137,890	87,462
Total Deposits	647,843	510,684
Short-term borrowings	123,867	61,090
FHLB advances	-	25,000
Accrued interest payable	1,813	2,126
Other liabilities	7,469	5,890
Subordinated debt	6,186	6,186
Liabilities of First Bank of Delaware discontinued operations	-	44,212
Total Liabilities	787,178	655,188
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized; no shares issued as of December 31, 2005 and 2004	-	-
Common stock, par value \$0.01 per share; 20,000,000 shares authorized; shares issued 8,753,998 as of December 31, 2005 and 7,429,078 as of December 31, 2004	88	74
Additional paid in capital	50,203	42,494
Retained earnings	15,566	23,867
Treasury stock at cost (227,778 shares and 192,689 respectively)	(1,688)	(1,541)

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Stock held by deferred compensation plan	(573)	-
Accumulated other comprehensive income	81	330
Total Shareholders' Equity	63,677	65,224
Total Liabilities and Shareholders' Equity	\$ 850,855	\$ 720,412

(See notes to consolidated financial statements)

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REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands, except per share data)

	2005		2004		2003
Interest income:					
Interest and fees on loans	\$ 42,331	\$	31,006	\$	34,144
Interest on federal funds sold and other interest-earning assets	1,078		563		863
Interest and dividends on investment securities	1,972		2,030		2,735
	45,381		33,599		37,742
Interest expense:					
Demand - interest bearing	332		350		445
Money market and savings	6,026		2,135		1,583
Time less than \$100,000	3,181		2,999		3,806
Time over \$100,000	3,608		2,003		2,114
Other borrowings	3,076		7,261		8,248
	16,223		14,748		16,196
Net interest income	29,158		18,851		21,546
Provision (recovery) for loan losses	1,186		(314)		5,827
Net interest income after provision (recovery) for loan losses	27,972		19,165		15,719
Non-interest income:					
Loan advisory and servicing fees	573		491		463
Service fees on deposit accounts	2,000		1,662		1,335
Gains on sales and calls of investment securities	97		5		-
Gain on sale of other real estate owned	-		-		224
Lawsuit damage award	-		1,337		-
Other income	944		971		831
	3,614		4,466		2,853
Non-interest expenses:					
Salaries and employee benefits	9,569		7,647		7,481
Occupancy	1,566		1,400		1,347
Depreciation	991		947		1,101
Legal	673		812		773
Other real estate	44		81		240
Advertising	192		139		161
Data processing	504		88		114
Taxes, other	688		567		500
Other operating expenses	3,980		3,665		2,897
	18,207		15,346		14,614
Income from continuing operations before income taxes	13,379		8,285		3,958
Provision for income taxes	4,486		2,694		1,267
Income from continuing operations	8,893		5,591		2,691
Income from discontinued operations	-		5,060		3,440
Income tax on discontinued operations	-		1,711		1,217
Income from discontinued operations, net of tax	-		3,349		2,223

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Net Income	\$	8,893	\$	8,940	\$	4,914
Income per share from continuing operations:						
Basic	\$	1.06	\$	0.69	\$	0.34
Diluted	\$	1.02	\$	0.66	\$	0.32
Income per share from discontinued operations:						
Basic	\$	-	\$	0.41	\$	0.28
Diluted	\$	-	\$	0.39	\$	0.27
Net income per share:						
Basic	\$	1.06	\$	1.10	\$	0.62
Diluted	\$	1.02	\$	1.05	\$	0.59

(See notes to consolidated financial statements)

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS of CASH FLOWS
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

	2005		2004		2003
Cash flows from operating activities:					
Net income	\$ 8,893	\$	8,940	\$	4,914
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for loan losses	1,186		1,149		6,764
Write down or loss of other real estate owned	-		70		56
Gain on sale of other real estate owned	-		-		(224)
Depreciation	991		1,338		1,416
Tax benefit of stock option exercises	624		-		-
Stock purchases for deferred compensation plan	(573)		-		-
Gains on sales and call of securities	(97)		(5)		-
Amortization of discounts on investment securities	189		252		192
Increase in value of bank owned life insurance	(331)		(422)		(263)
Decrease (increase) in accrued interest receivable and other assets	4,066		(6,505)		(3,190)
Increase in accrued expenses and other liabilities	1,266		6,764		1,845
Net cash provided by operating activities	16,214		11,581		11,510
Cash flows from investing activities:					
Purchase of investment securities:					
Available for sale	(18,665)		(7,500)		(31,894)
Held to maturity	-		-		(2,160)
Proceeds from maturities and calls of securities:					
Available for sale	20,671		11,500		6,500
Held to maturity	183		-		35
Proceeds from sale of investment securities:					
Available for sale	-		1,500		1,003
Principal collected on investment securities:					
Available for sale	4,126		10,039		48,429
Held to maturity	49		251		3,546
Purchase of FHLB stock	(1,684)		-		(411)
Proceeds from sale of FHLB stock	-		2,583		-
Net increase in loans	(128,650)		(104,545)		(29,447)
Net proceeds from sale of other real estate owned	-		-		1,015
Purchase of treasury shares	(143)		-		-
Purchase of bank owned life insurance	-		-		(11,500)
Decrease in other interest-earning restricted cash	2,923		560		745
Premises and equipment expenditures	(964)		(1,952)		(828)
Net cash used in investing activities	(122,154)		(87,564)		(14,967)
Cash flows from financing activities:					
Net proceeds from exercise of stock options	1,275		358		1,094
Net increase in demand, money market and savings	58,399		88,392		32,955
Net increase (decrease) in time deposits	78,760		3,399		(35,652)
Net increase in short term borrowings	62,777		58,238		2,852

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Repayment of FHLB advances	(25,000)	(100,000)	-
Net cash provided by financing activities	176,211	50,387	1,249
Discontinued operations:			
Net cash from discontinued operating activities	-	(10,531)	(1,727)
Net cash from discontinued investing activities	-	14,188	291
Net cash from discontinued financing activities	-	(11,494)	9,360
Net cash from discontinued activities	-	(7,837)	7,924
Increase (decrease) in cash and cash equivalents	70,271	(33,433)	5,716
Cash and cash equivalents, beginning of year	36,703	70,136	64,420
Cash and cash equivalents, end of year	\$ 106,974	\$ 36,703	\$ 70,136
Supplemental disclosures:			
Interest paid	\$ 16,535	\$ 15,826	\$ 17,408
Income taxes paid	3,885	3,300	2,650
Non-monetary transfers from loans to other real estate owned	-	1,500	207

(See notes to consolidated financial statements)

REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income	Shareholders' Equity
Balance January 1, 2003		\$ 64	\$ 32,305	\$ 18,760	\$ (1,541)	-	\$ 1,688	\$ 51,276
Total other comprehensive loss, net of reclassification adjustments and taxes:								
From continuing operations	(881)						(881)	(881)
From discontinued operations	(27)						(27)	(27)
Income from continuing operations, net of taxes	2,691			2,691				2,691
Income from discontinued operations, net of taxes	2,223			2,223				2,223
Net income for the year	4,914	-	-	4,914	-		-	4,914
Total comprehensive income	\$ 4,006	-	-	-	-		-	-
Options exercised (292,068 shares)		3	1,091	-	-		-	1,094
Balance December 31, 2003		67	33,396	23,674	(1,541)	-	780	56,376
Total other comprehensive loss, net of reclassification adjustments and taxes:								
From continuing operations	(436)						(436)	(436)
From discontinued operations	(14)						(14)	(14)
Income from continuing operations, net of taxes	5,591			5,591				5,591

Income from discontinued operations, net of taxes	3,349			3,349				3,349
Net income for the year	8,940	-	-	8,940	-	-	-	8,940
Total comprehensive income	\$ 8,490	-	-	-	-	-	-	-
Stock dividend (659,225 shares)		7	8,740	(8,747)				
Options exercised (105,185 shares)			358			-	-	358
Balance December 31, 2004		74	42,494	23,867	(1,541)	-	330	65,224
First Bank of Delaware spin-off	-	-	-	-	-	-	-	-
Total other comprehensive loss, net of reclassification adjustments and taxes	(227)	-	-	-	-	-	(227)	(227)
Net income for the year	8,893	-	-	8,893	-	-	-	8,893
Total comprehensive income	\$ 8,666	-	-	-	-	-	-	-
Stock dividend (924,022 shares)		10	10,968	(10,978)				
First Bank of Delaware spin-off		-	(5,158)	(6,216)			(22)	(11,396)
Options exercised (400,898 shares)		4	1,271					1,275
Purchase of Treasury shares (11,961 shares)			4			(147)		(143)
Tax benefit of stock option exercises			624					624
Stock purchases for deferred compensation plan (44,893 shares)						(573)		(573)
Balance December 31, 2005	\$ 88	\$ 50,203	\$ 15,566	\$ (1,688)	\$ (573)	\$ (573)	\$ 81	\$ 63,677

(See notes to consolidated financial statements)

**REPUBLIC FIRST BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. Organization:

Republic First Bancorp, Inc. (“the Company”) spun off its former subsidiary, the First Bank of Delaware, through a pro-rata distribution of one share of the common stock of the First Bank of Delaware (“FBD”) for every share of the Company’s common stock outstanding on January 31, 2005. The Company’s financial statements are presented herein with an effective date of the spin off as of January 1, 2005. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, the Company has presented the spin-off of the First Bank of Delaware as a discontinued operation (Note 20). The Company is now 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. Republic offers a variety of banking services to individuals and businesses throughout the Greater Philadelphia and South Jersey area through its offices and branches in Philadelphia, Montgomery, and Delaware Counties.

Both Republic and FBD share data processing, accounting, human resources and compliance services through BSC Services Corp. (“BSC”), which is a subsidiary of FBD. BSC allocates its costs, on the basis of usage, to Republic and FBD, which classify such costs to the appropriate non-interest expense categories.

At December 31, 2004, the Company was a two-bank holding company organized and incorporated under the laws of the Commonwealth of Pennsylvania. Its other wholly-owned subsidiary, until the January 31, 2005 spin off, was First Bank of Delaware; a Delaware State chartered Bank, located at Brandywine Commons II, Concord Pike and Rocky Run Parkway in Brandywine, New Castle County, Delaware. First Bank of Delaware offered many of the same services and financial products as Republic, and additionally offered nationally, short-term consumer loans and other loan products not offered by Republic.

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

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

2. Summary of Significant Accounting Policies:

Basis of Presentation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Republic. Such statements have been presented in accordance with accounting principles generally accepted in the United States of America or applicable to the banking industry. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

Risks and Uncertainties and Certain Significant Estimates:

The earnings of the Company depend on the earnings of Republic. Earnings are dependent primarily upon the level of net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and

investments, and the interest paid on its interest-bearing liabilities, such as deposits and borrowings. Accordingly, the results of operations are subject to risks and uncertainties surrounding their exposure to change 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 accounting principles generally accepted 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 and income taxes. 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. Since 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, it is at least reasonably possible that the estimates of the allowance for loan losses and the carrying values of other real estate owned could differ materially in the near term.

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.

Cash and Cash Equivalents:

For purposes of the statements of cash flows, the Company considers all cash and due from banks, interest-bearing deposits with an original maturity of ninety days or less and federal funds sold to be cash and cash equivalents.

Restrictions on Cash and Due From Banks:

Republic is required to maintain certain average reserve balances as established by the Federal Reserve Board. The amounts of those balances for the reserve computation periods that include December 31, 2005 and 2004 were \$0.3 million and \$11.4 million, respectively. These requirements were satisfied through the restriction of vault cash and a balance at the Federal Reserve Bank of Philadelphia.

Other Interest-Earning Restricted Cash:

Other interest-earning restricted cash represented funds provided to fund an offsite ATM network for which the Company was compensated. These funds were not considered cash equivalents because the Company was contractually obligated to provide these funds and were not immediately able to withdraw the funds. The relationship with the ATM network ended in the fourth quarter of 2005.

Investment Securities:

Debt and equity investment securities are classified in one of three categories, as applicable, and accounted for as follows: debt securities which the Company has the positive intent and ability to hold to maturity are classified as "securities held to maturity" and are reported at amortized cost; debt and equity securities that are bought and sold in the near term are classified as "trading" and are reported at fair market value with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held to maturity and/or trading securities are classified as "investment securities available for sale" and are reported at fair market value with net unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity. Gains or losses on disposition are based on the net proceeds and cost of securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method. The Company does not have any investment securities designated as trading as of December 31, 2005 and 2004.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and Allowance for Loan Losses:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is calculated based upon the principal amounts outstanding. The Company defers and amortizes certain origination and commitment fees, and certain direct loan origination costs over the contractual life of the related loan. This results in an adjustment of the related loans yield.

The Company accounts for amortization of premiums and accretion of discounts related to loans purchased and investment securities based upon the effective interest method. If a loan prepays in full before the contractual maturity date, any unamortized premiums, discounts or fees are recognized immediately as an adjustment to interest income.

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

interest is in doubt. Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance of interest and principal by the borrower, in accordance with the contractual terms. Generally, in the case of non-accrual loans, cash received is applied to reduce the principal outstanding.

The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance when management believes that the collectibility of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance.

The allowance is an amount that represents management's best estimate of known and inherent loan losses. Management's evaluations of the allowance for loan losses consider such factors as an examination of the portfolio, past loss experience, the results of the most recent regulatory examination, current economic conditions and other relevant factors.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment, include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration of all the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The Company accounts for the transfers and servicing financial assets in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. SFAS No. 140 revises the standards for accounting for the securitizations and other transfers of financial assets and collateral.

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Company accounts for guarantees in accordance with FIN 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain non-financial contractual obligation. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2005 is \$5.8 million and they expire as follows \$5.3 million in 2006 and \$0.5 million in 2007. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

The Company accounts for loan commitments in accordance with SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 clarifies and amends SFAS No. 133 for implementation issues raised by constituents or includes the conclusions reached by the FASB on certain FASB Staff Implementation Issues. SFAS No. 149 also amends SFAS No. 133 to require a lender to account for loan commitments related to mortgage loans

that will be held for sale as derivatives. The Company periodically enters into commitments with its customers, which it intends to sell in the future.

Premises and Equipment:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of furniture and equipment is calculated over the estimated useful life of the asset using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated useful lives or terms of their respective leases, using the straight-line method. Repairs and maintenance are charged to current operations as incurred, and renewals and betterments are capitalized.

Other Real Estate Owned:

Other real estate owned consists of assets acquired through, or in lieu of, loan foreclosure. They are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less the cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. At December 31, 2005 and 2004, the Company had retail stores classified as other real estate owned with a value of \$137,000.

Bank Owned Life Insurance:

The Company invests in bank owned life insurance ("BOLI") as a source of funding to purchase life insurance on certain employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in other income on the income statement. At December 31, 2005 and 2004, the Company owned \$10.9 million and \$10.6 million, respectively in BOLI. In 2005, 2004 and 2003 the Company recognized \$331,000, \$367,000 and \$230,000, respectively in related income.

Advertising Costs:

It is the Company's policy to expense advertising costs in the period in which they are incurred.

Income Taxes:

The Company accounts for income taxes under the liability method of accounting. Deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at the tax rates expected to be in effect when the temporary differences are realized or settled. In addition, a deferred tax asset is recorded to reflect the future benefit of net operating loss carryforwards. The deferred tax assets may be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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 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 (“CSE”). Common stock equivalents consist of dilutive stock options granted through the Company’s stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. Common stock equivalents, which are antidilutive are not included for purposes of this calculation. At December 31, 2005, 2004 and 2003, there were no stock options excluded from the computation of earnings per share because the option price was greater than the average market price, respectively.

<i>(In thousands, except per share data)</i>	2005	2004	2003
Income from continuing operations (numerator for basic and diluted earnings per share)	\$ 8,893	\$ 5,591	\$ 2,691

	2005		2004		2003	
	Shares	Per Share	Shares	Per Share	Shares	Per Share
Weighted average shares outstanding for the period (denominator for basic earnings per share)	8,360,949		8,081,995		7,924,951	
Earnings per share — basic	\$	1.06	\$	0.69	\$	0.34
Effect of dilutive stock options	345,082		399,203		364,722	
Effect on basic earnings per share of CSE		(0.04)		(0.03)		(0.02)
Weighted average shares outstanding- diluted	8,706,031		8,481,198		8,289,673	
Earnings per share — diluted	\$	1.02	\$	0.66	\$	0.32

<i>(In thousands, except per share data)</i>	2005	2004	2003
Income from discontinued operations, net of taxes (numerator for basic and diluted earnings per share)	\$ -	\$ 3,349	\$ 2,223

	2005		2004		2003	
	Shares	Per Share	Shares	Per Share	Shares	Per Share
Weighted average shares outstanding for the period (denominator for basic earnings per share)	-		8,081,995		7,924,951	
Earnings per share — basic	\$	-	\$	0.41	\$	0.28
Effect of dilutive stock options	-		399,203		364,722	
		-		(0.02)		(0.01)

Effect on basic earnings per share of CSE						
Weighted average shares outstanding- diluted	-		8,481,198		8,289,673	
Earnings per share — diluted	\$	-		\$	0.39	\$ 0.27
<i>(In thousands, except per share data)</i>		2005		2004		2003
Net income (numerator for basic and diluted earnings per share)	\$	8,893		\$	8,940	\$ 4,914
		2005		2004		2003
	Shares	Per Share	Shares	Per Share	Shares	Per Share
Weighted average shares outstanding for the period (denominator for basic earnings per share)	8,360,949		8,081,995		7,924,951	
Earnings per share — basic	\$	1.06		\$	1.10	\$ 0.62
Effect of dilutive stock options	345,082		399,203		364,722	
Effect on basic earnings per share of CSE		(0.04)		(0.05)		(0.03)
Weighted average shares outstanding- diluted	8,706,031		8,481,198		8,289,673	
Earnings per share — diluted	\$	1.02		\$	1.05	\$ 0.59

Stock Based Compensation:

The Company accounts for stock options under the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue accounting for employee stock options and similar equity instruments under Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*. Entities that continue to account for stock options using APB Opinion 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

At December 31, 2005, the Company had a stock-based employee compensation plan, which is more fully described in Note 15. The Company accounts for that plan under the recognition and measurement principles of APB No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Stock-based employee compensation costs are not reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant

In accordance with FAS 123, the following table shows pro forma net income and earnings per share assuming stock options had been expensed based on their fair value of the options granted along with the significant assumptions used in the Black-Scholes option valuation model (dollars in thousands, except per share data):

	Year Ended December 31		
	2005	2004	2003
Income from continuing operations	\$ 8,893	\$ 5,591	\$ 2,691
Stock-based employee compensation costs determined if the fair value method had been applied to all awards, net of tax	(603)	(159)	(277)
	8,290	5,432	2,414
Income from discontinued operations	-	3,349	2,223
Stock-based employee compensation costs determined if the fair value method had been applied to all awards, net of tax, for discontinued operations	-	(51)	(89)
	-	3,298	2,134
Pro forma net income	\$ 8,290	\$ 8,730	\$ 4,548
Basic Earnings per Common Share:			
As reported:			
From continuing operations	\$ 1.06	\$ 0.69	\$ 0.34
From discontinued operations	-	0.41	0.28
	\$ 1.06	\$ 1.10	\$ 0.62
Pro forma:			
From continuing operations	\$ 0.99	\$ 0.67	\$ 0.30
From discontinued operations	-	0.41	0.27
	\$ 0.99	\$ 1.08	\$ 0.57

Diluted Earnings per Common Share:

As reported:

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From continuing operations	\$	1.02	\$	0.66	\$	0.32
From discontinued operations		-		0.39		0.27
	\$	1.02	\$	1.05	\$	0.59
Pro forma:						
From continuing operations	\$	0.95	\$	0.64	\$	0.29
From discontinued operations		-		0.39		0.26
	\$	0.95	\$	1.03	\$	0.55

The proforma compensation expense is based upon the fair value of the option at grant date. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005, 2004 and 2003, respectively; dividend yields of 0% for all three periods; expected volatility of 21% for 2005, 35% for 2004, and 34% for 2003; risk-free interest rates of 4.08%, 3.48% and 3.48% respectively and an expected life of 9.0 years for 2005 and 5.0 years for 2004 and 2003. As a result of the spin-off of First Bank of Delaware, related stock option expense for 2004 and 2003 was allocated between those two entities on the basis of stock prices as of the date of the spin-off.

Restatement for Stock Dividends:

All applicable amounts in these financial statements have been restated for a 12% stock dividend paid on June 7, 2005.

Comprehensive Income:

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

	Year Ended December 31		
	2005	2004	2003
Income from continuing operations	\$ 8,893	\$ 5,591	\$ 2,691
Income from discontinued operations			