

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, DC 20429

FORM 10-Q

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

For the Quarterly Period Ended: **June 30, 2010**

FDIC certificate number: **34929**

First Bank of Delaware

(Exact name of business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

51-0389698
IRS Employer Identification
Number

Brandywine Commons II, Rocky Run Parkway, Wilmington, DE 19803
(Address of principal executive offices) (Zip code)

302-529-5984
(Issuer'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 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(S232.405 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
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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

11,418,901 shares of Issuer's Common Stock, par value
\$0.05 per share, issued and outstanding as of August 13, 2010

TABLE OF CONTENTS

	<u>Page</u>
Part I: Financial Information	
Item 1: Financial Statements (unaudited)	3
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3: Quantitative and Qualitative Disclosures About Market Risk	51
Item 4: Controls and Procedures	52
Part II: Other Information	
Item 1: Legal Proceedings	52
Item 4: Submission of Matters to a Vote of Security Holders	54
Item 6: Exhibits	55

PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

<u>Number</u>	<u>Page</u>
(1) Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009 (unaudited)	4
(2) Consolidated Statements of Income for the three and six months ended June 30, 2010 and 2009 (unaudited)	5
(3) Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2010 and 2009 (unaudited)	6
(4) Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009 (unaudited)	7
(5) Notes to Consolidated Financial Statements (unaudited).....	8

First Bank of Delaware
Consolidated Balance Sheets
As of June 30, 2010 and December 31, 2009
(Dollars in thousands, except per share data)
(unaudited)

ASSETS:	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Cash and due from banks	\$ 2,590	\$ 2,886
Interest bearing deposits with banks	1,388	24,015
Federal funds sold	40,618	9,838
Total cash and cash equivalents	<u>44,596</u>	<u>36,739</u>
Investment securities available for sale, at fair value	10,109	7,604
Restricted stocks, at cost	475	475
Loans receivable (net of allowance for loan losses of \$4,033 and \$3,512, respectively)	108,242	82,564
Premises and equipment, net	2,834	2,977
Other real estate owned	1,024	1,049
Accrued interest receivable	482	315
Bank owned life insurance	1,871	1,855
Other assets	<u>7,807</u>	<u>6,782</u>
Total Assets	<u>\$ 177,440</u>	<u>\$ 140,360</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Demand – non-interest-bearing	\$ 47,403	\$ 24,299
Demand – interest-bearing	3,656	717
Money market and savings	52,334	37,677
Time under \$100,000	13,517	13,255
Time \$100,000 or more	14,637	18,766
Total Deposits	<u>131,547</u>	<u>94,714</u>
Accrued interest payable	184	191
Accrued expenses	1,832	2,280
Other liabilities	<u>1,537</u>	<u>1,728</u>
Total Liabilities	<u>135,100</u>	<u>98,913</u>
Shareholders' Equity:		
Common stock par value: \$0.05; shares authorized: 15,000,000		
Shares issued and outstanding at June 30, 2010: 11,418,901		
Shares issued and outstanding at December 31, 2009: 11,418,901		
	571	571
Additional paid in capital	13,499	13,456
Retained earnings	27,955	27,157
Accumulated other comprehensive income	315	263
Total Shareholders' Equity	<u>42,340</u>	<u>41,447</u>
Total Liabilities and Shareholders' Equity	<u>\$ 177,440</u>	<u>\$ 140,360</u>

(See notes to unaudited consolidated financial statements)

First Bank of Delaware
Consolidated Statements of Income
For the Three and Six Months Ended June 30, 2010 and 2009
(Dollars in thousands, except per share data)
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Interest income:				
Interest and fees on loans	\$3,595	\$2,104	\$6,935	\$4,234
Interest and dividend income on federal funds sold and other interest-earning balances	38	8	60	15
Interest and dividends on investment securities	113	182	248	399
Total interest income	<u>3,746</u>	<u>2,294</u>	<u>7,243</u>	<u>4,648</u>
Interest expense:				
Demand - interest bearing	7	3	10	4
Money market and savings	185	114	329	181
Time less than \$100,000	83	102	171	203
Time over \$100,000	68	14	129	20
Other borrowed funds	-	-	-	2
Total interest expense	<u>343</u>	<u>233</u>	<u>639</u>	<u>410</u>
Net interest income	3,403	2,061	6,604	4,238
Provision for loan losses	1,100	1,550	1,925	2,275
Net interest income after provision for loan losses	<u>2,303</u>	<u>511</u>	<u>4,679</u>	<u>1,963</u>
Non-interest income:				
Loan advisory and servicing fees	62	17	72	22
Service fees on deposit accounts	24	36	50	72
Cash management income	612	109	901	164
Consumer loan fee income	730	476	1,514	946
Credit and prepaid card products	120	1,809	250	3,966
Bank owned life insurance	8	9	16	20
Other income	15	32	126	45
Total non-interest income	<u>1,571</u>	<u>2,488</u>	<u>2,929</u>	<u>5,235</u>
Non-interest expenses:				
Salaries and employee benefits	1,764	1,662	3,642	3,803
Occupancy	165	161	343	332
Depreciation	116	112	232	222
Legal	96	32	207	98
Professional fees	86	48	204	279
Data processing and operational expense	146	107	290	252
Installment loan expenses	45	-	105	-
Card program processing expense	145	57	161	180
Federal Deposit Insurance Corporation expense	86	63	138	86
Insurance expenses	68	73	151	132
Delaware franchise tax	38	2	65	38
Other operating expenses	422	318	853	712
Total non-interest expense	<u>3,177</u>	<u>2,635</u>	<u>6,391</u>	<u>6,134</u>
Income before income taxes	697	364	1,217	1,064
Provision for income taxes	238	127	419	363
Net Income	<u>\$459</u>	<u>\$237</u>	<u>\$798</u>	<u>\$701</u>
Earnings per share:				
Basic	<u>\$0.04</u>	<u>\$0.02</u>	<u>\$0.07</u>	<u>\$0.06</u>
Diluted	<u>\$0.04</u>	<u>\$0.02</u>	<u>\$0.07</u>	<u>\$0.06</u>

(See notes to unaudited consolidated financial statements)

FIRST BANK OF DELAWARE
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the six months ended June 30, 2010 and 2009
(Dollars in thousands)
(Unaudited)

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance January 1, 2010		\$ 571	\$ 13,456	\$ 27,157	\$ -	\$ 263	\$ 41,447
Stock Based Compensation		-	43	-	-	-	43
Total other comprehensive income, net of taxes of \$26	\$ 52	-	-	-	-	52	52
Net income	798	-	-	798	-	-	798
Total comprehensive income.....	\$ 850	-	-	-	-	-	-
Balance June 30, 2010		\$ 571	\$ 13,499	\$ 27,955	\$ -	\$ 315	\$ 42,340

	Comprehensive Income	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance January 1, 2009		\$ 570	\$ 13,371	\$ 25,659	\$ (384)	\$ 277	\$ 39,493
Options exercised (17,600 shares)		1	13	-	-	-	14
Stock Based Compensation		-	46	-	-	-	46
Deferred compensation stock distributions					384		384
Total other comprehensive loss, net of taxes of \$27	\$ (40)	-	-	-	-	(40)	(40)
Net income	701	-	-	701	-	-	701
Total comprehensive income.....	\$ 661	-	-	-	-	-	-
Balance June 30, 2009		\$ 571	\$ 13,430	\$ 26,360	\$ -	\$ 237	\$ 40,598

(See notes to unaudited consolidated financial statements)

First Bank of Delaware				
Consolidated Statements of Cash Flows				
For the Six Months Ended June 30, 2010 and 2009				
(Dollars in thousands)				
(unaudited)				
Six months ended				
June 30,				
		2010	2009	
Cash flows from operating activities:				
Net income		\$ 798		\$ 701
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		1,925		2,275
Stock compensation expense		43		46
Deferred compensation stock distribution		-		384
Write down of other real estate owned		25		-
Depreciation		232		222
Amortization of discount on investment securities		16		-
Increase in value of bank owned life insurance		(16)		(20)
(Increase) decrease in accrued interest receivable and other assets		(1,218)		1,351
Decrease in accrued interest payable, accrued expenses and other liabilities		(646)		(957)
Net cash provided by operating activities		<u>1,159</u>		<u>4,002</u>
Cash flows from investing activities:				
Purchase of securities:				
Available for sale		(4,035)		-
FHLB Stock purchase		-		(336)
Proceeds from principal receipts, calls and maturities of securities:				
Available for sale		1,592		5,553
Net (increase) decrease in loans		(27,603)		685
Purchases of premises and equipment		(89)		(104)
Proceeds from sales of premises and equipment		-		417
Net cash (used in) provided by investing activities		<u>(30,135)</u>		<u>6,215</u>
Cash flows from financing activities:				
Net proceeds from the exercise of stock options		-		14
Net increase (decrease) in demand, money market and savings deposits		40,700		(7,852)
Net (decrease) increase in time deposits		(3,867)		12,921
Net cash provided by financing activities		<u>36,833</u>		<u>5,083</u>
Increase in cash and cash equivalents		7,857		15,300
Cash and cash equivalents, beginning of period		36,739		9,553
Cash and cash equivalents, end of period		<u>\$ 44,596</u>		<u>\$ 24,853</u>
Supplemental disclosure:				
Interest paid		<u>\$ 646</u>		<u>\$ 323</u>
Taxes paid		<u>\$ 800</u>		<u>\$ 800</u>

(See notes to unaudited consolidated financial statements)

FIRST BANK OF DELAWARE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Organization

First Bank of Delaware

First Bank of Delaware, referred to as “we,” “FBD,” the “Bank” or the “Company,” is a commercial bank chartered pursuant to the laws of the State of Delaware. We operate a traditional community banking business, as well as a consumer products division from which we derive a majority of our revenue, which is the sum of interest income and non-interest income. We presently conduct our principal community banking activities through our two offices in Wilmington, Delaware. We offer a variety of credit and depository banking services. Our commercial loan services are primarily offered to individuals and businesses in the Delaware and contiguous counties area through two offices in New Castle County, Delaware. FBD also offers electronic payment services, including merchant acquiring services, automated clearinghouse (“ACH”) transaction processing, remotely created check (“RCC”) processing, and remote deposit capture services to businesses, merchants and independent sales organizations. These electronic payment services generate deposits and fee income. FBD also supports the Money Service Business (“MSB”) industry, by providing services to check cashers, money transmitters and bill paying services. We are able to provide these types of companies with vault, check processing, remote capture and wire services.

Our consumer products division is comprised of two business segments, consumer loans and card products. We make consumer installment loans nationally via the internet and telephone. Credit and prepaid card products and credit lines are similarly offered nationally. From the time we introduced our consumer products until 2008, we primarily relied on third parties to market and service these loans and cards. As a result of a consent order which we entered into with the Federal Deposit Insurance Corporation (“FDIC”) in October 2008, we have reduced our reliance on third parties and made significant changes in our consumer products division. We have terminated the third party relationships through which such loans and cards were marketed and serviced, and now offer these products directly with assistance from professional marketers and service providers.

We offer a variety of products on a national basis to the unbanked and under-banked segment of the population. These products include consumer loan products, credit cards, credit lines and prepaid cards. The FDIC and others have defined unbanked households as not having checking or savings account, and under-banked households as those that rely on alternative financial services specifically using non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawn shops at least once or twice a year or refund anticipation loans at least once in the past five years. These consumers typically have weakened credit histories that include payment delinquencies, and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories.

Most of the credit card receivables, credit line receivables and installment loans that we generate are sold or participated on a non-recourse basis and the purchasers bear the risk of loss for any default on the receivables. Our results of operation can be significantly affected by the ability of our third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, we may have to reduce or cease originations.

Short term consumer loans are offered by FBD. At June 30, 2010, there were approximately \$5.3 million in consumer installment loans on the balance sheet, originated via telephone and internet, but most

loans are sold or participated to third parties. The participations sold at June 30, 2010 were \$46.8 million. We evaluated these sales and determined that they qualify as sales under ASC 860.10. These loans generally have principal amounts of \$2,500 or less with a term of up to 24 months and have anywhere between 4 and 48 scheduled repayments. These loans are offered via the internet and telephone. Customers must have an active checking account, valid identification and a regular source of income. Many of these loans are made to customers with subprime credit characteristics, but these customers still must meet our credit underwriting criteria which may include minimum FICO credit scores, scores from other non-traditional credit reporting agencies and debt to income thresholds. If approved, FBD then assigns a maximum amount for the loan. FBD believes that this conservative qualification approach ensures that even consumers who borrow the lowest possible amount are not borrowing beyond their means. There are no late fees, deferral fees, extension fees, or rollover fees charged. In addition, there are no minimum finance charges or prepayment penalties associated with the product, and consumers are provided with a two-day rescission period during which they may cancel the loan without cost. Notably, refinances and roll-overs are not available on this product. Customers who repay loans and meet other criteria receive lower rates on future loans. Upon approval, a customer is then provided a loan agreement, which he or she signs, and the funds are then electronically deposited into the customer's checking account. Principal and interest payments are due at least monthly. Customers may repay their loans via ACH transactions from their bank account, via electronic check or by money order. These loans carry an annual interest rate of approximately 36% to 324%.

FBD is an issuing bank for certain credit card programs. At June 30, 2010, we had no credit card receivables on our balance sheet because those receivables had been sold in the fourth quarter 2009 and none were generated during year to date 2010. As a result of discussions with the FDIC, most third party relationships involved in generating credit cards have been terminated, which materially has reduced and will continue to reduce revenues. FBD plans to directly offer a secured credit card in 2010.

FBD offers its own prepaid cards primarily to the unbanked and under-banked consumer on a national basis. These cards are sold via the internet and through certain retailers. Customers may load their own funds onto the cards via the internet, merchants, or by direct deposit from their employer. Upon loading, customers may access their funds through ATMs or point of sale locations. The Bank earns revenues on these cards through interchange, monthly fees and float on the card deposits.

FBD also issues open-end lines of credit to the unbanked and under-banked consumer. The credit line program provides customers with cash advance funds placed onto their prepaid cards or demand deposit account. The program provides a credit line of up to an approved amount which is usually less than \$600 and includes a 12 percent transaction fee on the amount of the advance taken. The approved credit line is based on a borrowers deposit history and other credit factors. To access the credit line, the customer must move funds into his or her related deposit account telephonically or via the internet prior to the customer having access to the advance proceeds. This distinguishes the product from overdraft products where customers may unknowingly overdraw their account and be charged fees. FBD originates these credit line receivables and sells or participates the majority of such receivables into the secondary market. We earn a percentage of the transaction fees collected from customers. At June 30, 2010 FBD had approximately \$9,000 in credit line receivables and no credit line balances on its books.

FBD encounters vigorous competition for market share from bank holding companies, national and regional banks and other community banks, thrift institutions and other non-bank financial organizations, such as mutual fund companies, insurance companies and brokerage companies.

FBD is subject to regulations of certain state and federal agencies. These regulatory agencies periodically examine FBD for adherence to laws and regulations. This regulatory framework contributes to our cost of doing business, and any changes in applicable laws or regulations, or the results of any examination could result in additional cost or otherwise adversely affect our operations.

Note 2: Summary of Significant Accounting Policies:

Basis of Presentation:

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 accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. 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 month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Significant Estimates:

Our earnings include significant amounts of consumer loan and credit card product fee income, as well as 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. For example prepayments on fixed rate loans and mortgage-backed securities vary significantly and may cause significant fluctuations in our net interest margin. Our results of operations will be significantly affected by the ability of borrowers to repay their loans and many consumer borrowers, including consumer installment loan customers and credit card customers, are considered to be high credit risks. Further, litigation in connection with such consumer loans and card products, if successful, and if not reimbursed by loan servicers and card marketers obligated to indemnify FBD, could have an adverse impact on earnings and financial condition.

Our consumer loans generally have principal amounts of \$2,500 or less with terms of up to 24 months. Legislation eliminating or limiting interest rates upon such loans and upon credit cards has from time to time been proposed.

We generate substantial fee income after we sell or participate loans and credit card and credit line balances at par to various purchasers, based on the amounts of such balances or on the number of accounts outstanding. Should purchasers be unable to acquire funding, sales might be curtailed or eliminated with a material reduction in income.

A third party of FBD had an account compromise event in 2009. As a member of Visa and Mastercard, FBD was responsible for amounts relating to this event. We have received the actual loss amount from VISA and MasterCard for the actual fraud losses and other costs. This amount totals \$1.5 million. FBD has paid this amount. FBD has taken a charge of \$350,000 for its share of potential losses. We are seeking reimbursement of the remaining amount from third parties and insurance. If these reimbursements do not occur, FBD may have to take a charge for the remaining amount totaling \$1.1 million.

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, other than temporary impairment of investment securities and restricted stock and the realization of deferred 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. Since these estimates are dependent, to a great extent, on the general economy and other conditions that may be beyond FBD's control, it is at least reasonably possible that the estimates 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 that FBD doesn't intend to sell and not be required to sell 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 prospects 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 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.

In estimating the value of other real estate owned, management considers the information available to determine net realizable value. However, the actual net realizable value is not known until the disposition of the property.

We are subject to federal and state regulations governing virtually all aspects of our 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 conditions.

The Bank is currently assessing the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) which was signed into law by President Obama on July 21, 2010. Among the key provisions of the Dodd-Frank Act is the creation of a Bureau of Consumer Financial Protection (“Bureau”), which will be an independent bureau within the Federal Reserve System with broad authority to regulate the consumer finance industry including regulated financial institutions such as the Bank and non banks and others who are involved in the consumer finance industry. The Bureau is a new federal agency and will have a single director who has not yet been named by the President. It will take some time for the Bureau to be ready to carry out its duties and responsibilities. The Bureau will have exclusive authority through rulemaking, orders, policy statements, guidance and enforcement actions to administer and enforce federal consumer finance laws, to oversee non federally regulated entities, and to impose its own regulations and pursue enforcement actions when it determines that a practice is unfair, deceptive or abusive (“UDA”). The federal consumer finance laws are currently interpreted, administered and enforced by different federal agencies, including the Federal Deposit Insurance Corporation (“FDIC”) the current federal regulator of the Bank. The Treasury Secretary must determine a date, anywhere from six months to eighteen months after the enactment date of July 21, 2010, when all of the functions and responsibilities of the Bureau are transferred to it. While the Bureau has the exclusive power to interpret, administer and enforce federal consumer finance laws and UDA, the Dodd-Frank Act provides that the FDIC will continue to have examination and enforcement powers over the Bank relating to the matters within the jurisdiction of the Bureau because it has less than \$10 Billion in assets. The Dodd-Frank Act also gives state attorneys general the ability to enforce federal consumer protection laws.

The Bank continues to review the Dodd-Frank Act to determine its impact on the Bank. Many of the provisions will require the federal banking agencies to promulgate hundreds of regulations to implement its provisions. One provision amends the Electronic Fund Transfer Act (EFTA) to, among other things, give the Federal Reserve Board the authority to issue rules which are expected to limit debit-card interchange fees. While this restriction will not be applicable to the Bank due to its size, the impact of any restriction may set a market floor which could have negative competitive implications for the Bank.

While designed primarily to reform the financial regulatory system, the Dodd Frank Act also contains a number of corporate governance provisions that will affect public companies. The Dodd Frank Act requires the SEC to adopt rules which may affect the Bank’s executive compensation policies and disclosure. It also exempts smaller issuers such as the Bank from the requirement, originally enacted under Section 404(b) of the Sarbanes-Oxley Act of 2002, that the Bank’s independent auditor also attest to and report on management’s assessment of internal control over financial reporting.

The Dodd-Frank Act could require the Bank to make material expenditures, in particular personnel training costs and additional compliance expenses, or otherwise adversely affect the Bank’s business, financial condition, results of operations or cash flow. It could also require the Bank to change certain of its business practices, adversely affect its ability to pursue business opportunities the Bank might otherwise consider engaging in, cause business disruptions and/or have other impacts that are as of yet unknown to the Bank. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional expenses, any of which could have an adverse effect on the Bank’s business, financial condition, results of operations, or cash flow.

Restricted Stock:

Restricted stock, which represents required investment in the common stock of correspondent banks, is carried at cost and as of June 30, 2010 and December 31, 2009, consists of the common stock of the FHLB of Pittsburgh and Atlantic Central Bankers Bank. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock.

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 June 30, 2010.

Stock Based Compensation:

We maintain a Stock Option Plan and Restricted Stock Plan(the "Plan") under which the Company may grant options, restricted stock or stock appreciation rights to the Company's employees directors and certain consultants. As of June 30, 2010, 1,800,000 shares of common stock had been available for issuance or transfer under the Plan. On May 10, 2010, the shareholders of the Company approved an amendment to the Plan which increased the number of shares of common stock of the Bank that may be issued or transferred under the Plan to 1,800,000 shares, and extended the term of the Plan to December 31, 2019. The 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.

A summary of the activity related to the Company's stock options granted under the Plan during the six months ended June 30, 2010 and 2009 is presented below:

	For the Six Months Ended June 30,			
	2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	957,422	\$ 2.40	905,251	\$ 2.54
Granted	43,000	1.28	108,000	1.33
Exercised	-	-	(17,600)	0.78
Forfeited	(30,000)	1.77	(60,375)	2.57
Outstanding, end of period	<u>970,422</u>	<u>2.37</u>	<u>935,276</u>	<u>2.43</u>
Options exercisable at period-end	<u>559,422</u>	<u>2.62</u>	<u>556,276</u>	<u>2.61</u>
Weighted average fair value of options granted during the period		<u>\$ 0.66</u>		<u>\$ 0.66</u>

	For the Six Months Ended June 30,	
	2010	2009
Number of options exercised	-	17,600
Cash received	\$ -	\$ 13,728
Intrinsic value	-	20,944
Tax benefit	-	7,121

The following table summarizes information about options outstanding under the Plan as of June 30, 2010.

Range of Exercise Prices	Options outstanding			Options exercisable	
	Shares	Weighted Average remaining contractual life (years)	Weighted Average exercise price	Shares	Weighted Average Exercise Price
				-	
\$1.01 to \$1.50	157,850	7.3	\$ 1.30	3,850	\$ 1.20
\$1.51 to \$1.99	102,200	8.2	1.65	2,200	1.63
\$2.00 to \$2.69	216,472	4.3	2.50	216,472	2.50
\$2.70 to \$3.10	493,900	5.4	2.80	336,900	2.71
	970,422		\$ 2.37	559,422	\$ 2.62

During the three months ended June 30, 2010, \$20,000 was recognized in compensation expense for the Plan, compared to \$22,000 in compensation expense for the three months ended June 30, 2009. During the six months ended June 30, 2010, \$43,000 was recognized in compensation expense for the Plan, compared to \$46,000 for the six month period ended June 30, 2009. The fair value of each option granted in 2010 is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for those grants: dividend yield of 0%; expected volatility of 45.52%; risk-free interest rate of 3.20% to 3.36% and an expected life of 7.0 years. At June 30, 2010, there were 411,000 unvested options with a fair value of \$344,000 with \$136,000 of that amount remaining to be recognized as expense. At that date, the intrinsic value (the excess of the market price over the exercise price) of the 970,422 options outstanding was \$70,660, while the intrinsic value of the 559,422 exercisable (vested) options was \$2,140. During the six months ended June 30, 2010, 30,000 options were forfeited with a weighted average grant value of \$53,040.

Note 3: Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This ASU requires some new disclosures and clarifies existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB’s objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

A reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and
In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. We have adopted this guidance during the quarter ended March 31, 2010 and it did not have a material effect on our financial position or results of operations.

In March 2010, the FASB issued ASU 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*. The FASB believes this ASU clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption - one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature.

The amendments in ASU 2010-11 are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity's first fiscal quarter beginning after March 5, 2010. We do not expect the adoption of this guidance to have a material effect on our financial position or results of operations.

In June 2009, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standard Codification 105-10, "Generally Accepted Accounting Principles". This standard establishes the FASB Accounting Standard Codification ("Codification" or "ASC") as the source of authoritative U.S. GAAP recognized by the FASB for nongovernmental entities. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification is a reorganization of existing U.S. GAAP and does not change existing U.S. GAAP. We adopted this standard during the third quarter of 2009. The adoption had no impact on our financial position, results of operations, and earnings per share.

In August 2009, the FASB issued Accounting Standards Update ("ASU") 2009-5, "Measuring Liabilities at Fair Value", which updates ASC 821-10, "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 was effective beginning October 1, 2009. The adoption had no impact on our financial position, results of operations, and earnings per share.

Note 4: Legal Proceedings

From time to time we may be party to lawsuits that occur in the ordinary course of business. While any litigation involves an element of uncertainty, our management is of the opinion that our liability, if any, resulting from any of these pending actions will not have a material effect on our financial condition or results of operations. However, should we be successfully sued, our results of operations and financial condition could be adversely affected. Also See Part II ITEM 1: Legal Proceedings

Note 5: Segment Reporting

Our reportable segments represent strategic businesses that offer different products and services. The segments are managed separately because each segment has unique operating characteristics, management requirements and marketing strategies. We have three reportable segments: community banking; consumer loans; and card products. The community banking segment is primarily comprised of the results of operations and financial condition of commercial loan, electronic payments products and deposit operations. We additionally offer consumer products to the underbanked consumer including consumer installment loans, prepaid cards, credit lines and credit cards. Consumer loans are loans with principal amounts of \$2,500 or less and terms of 120 days to 24 months. These loans typically are made in states outside of Delaware via the internet through a small number of marketers with rates and fees significantly different from other loan products offered. We perform underwriting, customer service and collection functions ourselves, or through directly contracted third parties. We also offer card products, which consist of prepaid and credit cards, on a national basis through a small number of marketers. FBD also offers credit lines on various prepaid and deposit accounts. The majority of these installment loans, credit line receivables and credit card receivables are sold or participated. As a result of discussions with the FDIC, third party relationships involved in generating these loans and credit cards have been terminated, which materially has reduced and continues to reduce revenues. FBD plans to directly offer various credit card products in 2010 including secured credit cards.

We evaluate the performance of the community banking segment based upon net income, return on equity and return on average assets. Consumer installment loans and card products are evaluated based upon net income.

Segment information for the three and six months ended June 30, 2010 and 2009, is as follows:

As of and for the three months ended June 30, 2010

(dollars in thousands)

	Community Banking	Card Products	Consumer Loans	Total
Net interest income	\$ 1,294	\$ -	\$ 2,109	\$ 3,403
Provision for loan losses	50	-	1,050	1,100
Non-interest income	721	120	730	1,571
Non-interest expenses	1,447	564	1,166	3,177
Provision(benefit) for income taxes	177	(152)	213	238
Net income (loss)	<u>\$ 341</u>	<u>\$ (292)</u>	<u>\$ 410</u>	<u>\$ 459</u>

As of and for the six months ended June 30, 2010

(dollars in thousands)

	Community Banking	Card Products	Consumer Loans	Total
Net interest income	\$ 2,355	\$ -	\$ 4,249	\$ 6,604
Provision for loan losses	300	-	1,625	1,925
Non-interest income	1,164	251	1,514	2,929
Non-interest expenses	2,721	1,299	2,371	6,391
Provision(benefit) for income taxes	170	(362)	611	419
Net income (loss)	<u>\$ 328</u>	<u>\$ (686)</u>	<u>\$ 1,156</u>	<u>\$ 798</u>

Selected Balance Sheet Accounts at June 30, 2010:

Total assets	\$ 160,050	\$ 5,389	\$ 12,001	\$ 177,440
Total loans	105,043	-	3,199	108,242
Total deposits	119,556	5,093	6,898	131,547

As of and for the three months ended June 30, 2009

(dollars in thousands)

	Community Banking	Card Products	Consumer Loans	Total
Net interest income	\$ 910	\$ (20)	\$ 1,171	\$ 2,061
Provision for loan losses	950	150	450	1,550
Non-interest income	203	1,808	477	2,488
Non-interest expenses	823	885	927	2,635
Provision(benefit) for income taxes	(224)	259	92	127
Net income (loss)	<u>\$ (436)</u>	<u>\$ 494</u>	<u>\$ 179</u>	<u>\$ 237</u>

As of and for the six months ended June 30, 2009

(dollars in thousands)

	Community Banking	Card Products	Consumer Loans	Total
Net interest income	\$ 1,874	\$ 9	\$ 2,355	\$ 4,238
Provision for loan losses	1,075	325	875	2,275
Non-interest income	323	3,965	947	5,235
Non-interest expenses	1,699	2,243	2,192	6,134
Provision(benefit) for income taxes	(195)	478	80	363
Net income (loss)	<u>\$ (382)</u>	<u>\$ 928</u>	<u>\$ 155</u>	<u>\$ 701</u>

Selected Balance Sheet Accounts at December 31, 2009:

Total assets	\$ 126,437	\$ 3,938	\$ 9,985	\$ 140,360
Total loans	79,434	-	3,130	82,564
Total deposits	84,469	3,573	6,672	94,714

Note 6: 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 (“CSEs”). CSEs consist of dilutive stock options granted through FBD’s stock option plan. 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. At June 30, 2010 there were 710,372 options which were antidilutive and therefore excluded from the calculation. At June 30, 2009, there were 931,426 options which were antidilutive due to the option exercise price being greater than the average market price for the period.

The following table is a comparison of EPS for the three and six months ended June 30, 2010, and 2009.

	Three months ended			
	<u>2010</u>		<u>2009</u>	
Net Income	\$459,000		\$237,000	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Weighted average shares				
For period	11,418,901		11,416,193	
Basic EPS		\$0.04		\$0.02
Add common stock equivalents representing dilutive stock options	<u>46,321</u>		=	
Effect on basic EPS of dilutive CSE		=		=
Equals total weighted average shares and CSE (diluted)	<u>11,465,222</u>		<u>11,416,193</u>	
Diluted EPS		<u>\$0.04</u>		<u>\$0.02</u>

	Six months ended			
	<u>2010</u>		<u>2009</u>	
Net Income	\$798,000		\$701,000	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Weighted average shares				
For period	11,418,907		11,408,747	
Basic EPS		\$0.07		\$0.06
Add common stock equivalents representing dilutive stock options	<u>29,036</u>		<u>1,930</u>	
Effect on basic EPS of dilutive CSE		=		=
Equals total weighted average shares and CSE (diluted)	<u>11,447,937</u>		<u>11,410,677</u>	
Diluted EPS		<u>\$0.07</u>		<u>\$0.06</u>

Note 7: Comprehensive Income:

The following table displays net income and the components of other comprehensive income to arrive at total comprehensive income. The only component of other comprehensive income is that related to the unrealized gains (losses) on available for sale investment securities.

(dollar amounts in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income	\$ 459	\$ 237	\$ 798	\$ 701
Other comprehensive loss, net of tax:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) during the period	51	(74)	78	(67)
Tax effect on unrealized holding (gains) and losses	(17)	25	(26)	27
Comprehensive income	<u>\$ 493</u>	<u>\$ 188</u>	<u>\$ 850</u>	<u>\$ 661</u>

Note 8: Fair Value of Financial Instruments:

Management uses its best judgment in estimating the fair value of our 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.

ASC 820-10, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described below:

Basis of Fair Value Measurement:

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 by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Bank's cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency for securities which the Bank owns may include investment-grade bonds and mortgage products. Such instruments are generally classified within level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, with valuations adjusted to reflect illiquidity and/or non-transferability, 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 Bank does not have any such securities at present.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2010 and December 31, 2009 are as follows:

Description	June 30, 2010	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)				
FNMA structured notes available for sale	\$ 4,040	\$ -	\$ 4,040	\$ -
Government mortgage backed securities available for sale	\$ 6,069	\$ -	\$ 6,069	\$ -
	<u>\$10,109</u>	<u>\$ -</u>	<u>\$ 10,109</u>	<u>\$ -</u>

Description	December 31, 2009	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
(In Thousands)				
Government mortgage backed securities available for sale	\$ 7,604	\$ -	\$ 7,604	\$ -

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2010 and December 31, 2009 are as follows:

Description	June 30, 2010	(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	\$ -	\$ -	\$ -	\$ -
Other real estate owned	\$ 1,024	\$ -	\$ -	\$ 1,024

Description	December 31, 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	\$ -	\$ -	\$ -	\$ -
Other real estate owned	\$ 1,049	\$ -	\$ -	\$ 1,049

Currently, FBD does not have any impaired loans that require a reserve under ASC 310.

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.

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) is determined by 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. 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 quoted market prices in active markets include all of the Company's U.S. government and agency securities, municipal obligations and corporate bonds and trust preferred securities. Such instruments are generally classified within level 1 or level 2 of the fair value hierarchy. As required by ASC 820-10, the Bank does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency for securities which the bank owns may include investment- grade corporate bonds, municipal obligations, and trust preferred securities. Such instruments are generally classified within level 2 of the fair value hierarchy.

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 bank has never owned any Level 3 securities.

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 repriced frequently and with no significant change in credit risk, fair values are based on carrying values.

Other Real Estate Owned (Generally Carried at Fair Value):

These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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.

Bank Owned Life Insurance:

The fair value of bank owned life insurance is based on the estimated realizable market value of the underlying investments and insurance reserves.

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.

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 June 30, 2010 and December 31, 2009.

<i>(Dollars in Thousands)</i>	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance Sheet Data:				
Financial Assets:				
Cash and cash equivalents	\$ 44,596	\$ 44,596	\$ 36,739	\$ 36,739
Investment securities available for sale	10,109	10,109	7,604	7,604
Restricted stock	475	475	475	475
Loans receivable, net	108,242	111,177	82,564	83,938
Bank owned life insurance	1,871	1,871	1,855	1,855
Accrued interest receivable	482	482	315	315
Financial Liabilities:				
Deposits:				
Demand, savings and money market	\$ 103,393	\$103,393	\$ 62,693	\$ 62,693
Time	28,154	28,265	32,021	32,172
Accrued interest payable	184	184	191	191
Off Balance Sheet Financial Instruments:				
Commitments to extend credit	\$ -	\$ -	\$ -	\$ -
Letters of credit	-	-	-	-

Note 9: Investment Securities:

Investment securities available for sale as of June 30, 2010 are as follows:

<i>(Dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
FNMA Structured Agencies	\$ 4,026	\$ 14	\$ -	\$ 4,040
Governmental Mortgage Backed Securities	5,606	463	-	6,069
Total	\$ 9,632	\$ 477	\$ -	\$ 10,109

Investment securities available for sale as of December 31, 2009 are as follows:

<i>(Dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governmental Mortgage Backed Securities	\$ 7,205	\$ 399	\$ -	\$ 7,604
Total	\$ 7,205	\$ 399	\$ -	\$ 7,604

The maturity distribution of the amortized cost and estimated fair value of investment securities by contractual maturity at June 30, 2010, is as follows:

<i>(Dollars in thousands)</i>	Available for Sale	
	Amortized Cost	Estimated Fair Value
	<hr/>	<hr/>
After 15 Years.....	\$ 9,632	\$ 10,109
Total	<u>\$ 9,632</u>	<u>\$ 10,109</u>

Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties. FBD has received notification that the \$4 million in structured agencies will be called in July of 2010 and thus our investment balances will decrease.

FBD did not sell any securities during 2010 or 2009.

There were no pledged securities as of June 30, 2010 and December 31, 2009.

Note 10: Subsequent Events:

Subsequent events were reviewed through August 13, 2010.

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

The following is management’s discussion and analysis of significant changes in FBD’s results of operations, financial condition and capital resources presented in the accompanying consolidated financial statements. This discussion should be read in conjunction with the accompanying notes to the consolidated financial statements.

Certain statements in this document 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 expressions or 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 include: our exposure to interest rate risk, credit risk associated with our lending activities, the adequacy of our allowance for loan losses, general economic conditions, including their impact on capital expenditures; our ability to successfully introduce new, directly offered products, new service and product offerings by competitors and price pressures; regulation and litigation related to consumer financial products and banking; 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. FBD undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents FBD files from time to time with the FDIC, including FBD’s Annual Report on Form 10-K for the year ended December 31, 2009.

Banking Products and Services

We offer a range of commercial and other banking services, including secured and unsecured commercial real estate loans, construction and land development and other commercial loans. We also offer both commercial and consumer deposit accounts, including checking accounts, interest-bearing demand accounts, money market accounts, certificates of deposit, savings accounts, sweep accounts, remote deposit services, lockbox services and individual retirement accounts (and other traditional banking services). Our commercial loans typically range between \$250,000 and \$3.0 million but customers may borrow significantly larger amounts up to our secured legal lending limit to one borrower of approximately \$11.5 million. Also, individual customers may have several loans often secured by different collateral, which are in total subject to that lending limit.

Our lending activities generally are focused on small and medium-sized businesses within the professional community. Commercial and construction loans are the most significant category of our outstanding loans, representing 94.4% of total loans outstanding at June 30, 2010. Repayment of these loans is, in part, dependent on general economic conditions affecting the Delaware and southeastern Pennsylvania community and the businesses within that community. Although our management follows established underwriting policies and monitors loans, credit risk is inherent in our lending activities.

Although the majority of our loan portfolio is secured by real estate or other collateral, a portion of the commercial portfolio is unsecured, representing loans made to borrowers considered to be of sufficient financial strength to merit unsecured financing. We make both fixed and variable rate loans with fixed

terms ranging generally from one to five years. Variable rate loans are generally tied to the national prime rate of interest. We also offer home equity loans, consumer installment loans, and other consumer loans.

FBD supports the Money Service Business (“MSB”) industry by providing services to check cashers, money transmitters and bill paying service providers. We are able to provide these types of companies with vault, check processing, remote capture and wire services. FBD also offers electronic payment services, including merchant acquiring services, ACH transaction processing, RCC transaction processing, and remote deposit capture to businesses, merchants and independent sales organizations.

Consumer Products

We offer a variety of products on a national basis to the unbanked and under-banked segment of the population. These products include consumer loan products, credit cards, credit lines and prepaid cards. The FDIC and others have defined “unbanked” households as not having checking or savings account, and “under-banked” households as those that rely on alternative financial services specifically using non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawn shops at least once or twice a year or refund anticipation loans at least once in the past five years. These consumers typically have weakened credit histories that include payment delinquencies, and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria associated with borrowers with incomplete credit histories.

The credit card receivables, credit line receivables and installment loans are typically sold or participated on a non-recourse basis and the purchasers bear the risk of loss for any default on the receivables. Our results of operation can be significantly affected by the ability of our third party purchasers to obtain financing to purchase loan receivables. Macroeconomic issues related to subprime markets could exacerbate related funding availability and costs. To the extent that these purchasers cannot obtain financing, or financing is limited, we may have to reduce or cease originations.

Card Products

Prepaid Cards

Through our membership with MasterCard International, we have become an issuing bank for prepaid cards. In the third quarter of 2005, we began offering prepaid cards primarily to the unbanked and under-banked customer on a national basis. Prepaid cards are cards that store information electronically on a magnetic stripe or computer chip and can be used to purchase goods or services. Funds are loaded onto cards which can be used in a manner similar to some debit/ATM cards and are similar to a MasterCard® or Visa® card. Prepaid cards are a substitute for cash, gift certificates and check payments. Cards can be either personalized with a customer name, non-personalized, reloadable or non-reloadable. Cards are issued through the internet, corporations or directly to the consumer. We contract with a processor to provide front-end software platform functionality, cardholder support and card fulfillment. The bank earns revenues on these cards through interchange, monthly fees and float on the card deposits. We ceased marketing cards through several processors in the third and fourth quarters of 2008. FBD launched its Simply Debit prepaid card in October 2009 and will continue providing prepaid card offerings to the under-banked and the unbanked consumer. The Simply Debit card is a general spend program. The card offers a bill pay service and will feature a line of credit. The prepaid debit cards allow consumers to load funds onto cards via payroll direct deposit, network loads or transfers from an existing bank account. The prepaid debit card is a secured product. We plan to have different brand names under the Simply Debit program that will allow us to target specific market segments.

Credit Card Products

We are an issuing bank for certain credit card programs marketed principally to the unbanked and underbanked consumer. FBD originates credit card receivables and sells or participates the majority of such receivables into the secondary market. We previously offered our card products through various third parties, but have terminated all third party credit card programs, with one exception, as a result of our consent order and discussions with the FDIC. FBD does not issue new accounts for the remaining program. FBD will continue to service cardholders in the remaining program until the cards expire.

We earn a monthly fee for each active account from purchasers, as well as a monthly management fee. In the fourth quarter of 2008, we began a trial offer of our own credit card products, and retained the related receivables. We terminated this trial offer in 2009. FBD plans to directly offer a secured credit card, private label credit cards and a prime credit card in 2010. At June 30, 2010, FBD had no credit card receivables and no credit card balances on its books.

Credit Line Products

We issue open end lines of credit to the unbanked and under-banked consumer. The line of credit program provides customers with cash advance funds to add onto a prepaid card or deposit into a demand deposit account. The program provides a credit line of up to an approved amount which is usually less than \$600 and includes a 12% transaction fee on the amount of the advance taken. The approved credit line is based on a borrower's deposit history and other credit factors. To access the credit line, the customer must move funds into his or her account telephonically or via the Internet prior to the customer having access to the advance proceeds. This distinguishes the product from overdraft products where customers may unknowingly overdraw their account and be charged fees. FBD originates these credit line receivables and sells or participates the majority of such receivables into the secondary market. We earn a percentage of the transaction fees collected from customers. At June 30, 2010 FBD had approximately \$9,000 in credit line receivables and no credit line balances on its books.

Consumer Installment Loans

We originate consumer installment loans that are generally fully amortizing unsecured loans of \$2,500 or less with a term of up to 24 months and have anywhere between 4 and 48 scheduled repayments. These loans are offered via the Internet and telephone. Customers must have an active checking account, valid identification and a regular source of income. Many of these loans are made to customers with subprime credit characteristics, but these customers still must meet our credit underwriting criteria which may include minimum FICO credit scores, scores from other non-traditional credit reporting agencies and debt to income thresholds. If approved, FBD then assigns a maximum amount for the loan. FBD believes that this conservative qualification approach ensures that even consumers who qualify for the smallest possible loan are not borrowing beyond their means. There are no late fees, deferral fees, extension fees, or rollover fees charged. In addition, there are no minimum finance charges or prepayment penalties associated with the product, and consumers are provided with a two-day rescission period during which they may cancel the loan without cost. Notably, refinances and roll-overs are not available on this product. Customers who repay loans and meet other criteria receive lower rates on future loans. Upon approval, a customer is then provided a loan agreement, which he or she signs, and the funds are then electronically deposited into the customer's checking account. Principal and interest payments are due at least monthly. Customers may repay their loans via ACH transactions from their bank account, via electronic check or by money order. As a result of higher than normal marketing and servicing costs and higher than normal charge-off volumes, these loans carry an annual interest rate of approximately 36% to 324%. We derive our authority to charge these rates of interest nationally on these loans from the Federal Deposit Insurance Act, which authorizes us

to export the rates permitted by the State of Delaware to customers regardless of where they reside. As a Delaware state-chartered depository institution, the Bank is subject to the interest rate laws of the State of Delaware, which do not impose a limit on the maximum rate of interest Delaware banks may charge.

Consumer installment loans were previously offered through unaffiliated third party marketers and servicers with whom we contracted and who owned the internet sites at which the loans were marketed. We have terminated our arrangements with these servicers and now offer our products directly and utilize professional marketers to help us obtain customers. We perform underwriting, customer service and collection functions internally, or through directly contracted third parties. We have developed an infrastructure, including oversight, to support the products.

We sell the majority of our consumer loans or participations in these loans to third party investors and plan to continue this practice. These third party buyers are investors or investment groups familiar with the industry. These loans are sold or participated on a non-recourse basis and the investors bear the risk of loss for any defaults on these loans. We retain a portion of the income on these sold loans, which is recorded as non-interest income. We also retain a portion of the loans we originate. Income on these retained loans is recorded as interest income. Per our internal guidelines, we hold up to 25% of our capital against these loans at any one time. We currently originate loans via the internet or by telephone, which are mostly sold or participated to third parties. At June 30, 2010, there were approximately \$52.1 million of such loans outstanding of which \$5.3 million was retained on the Bank's books. At June 30, 2010, there were no loans classified as "held for sale" that a buyer was committed to purchase.

Financial Condition:

June 30, 2010 Compared to December 31, 2009

Total assets increased \$37.0 million to \$177.4 million at June 30, 2010, compared to \$140.4 million at December 31, 2009. This increase reflected a \$25.7 million increase in loans, and \$7.9 million increase in cash equivalents and a \$2.5 million increase in investment securities between those respective dates.

Loans:

The loan portfolio represents FBD's largest asset, and is its most significant source of interest income. Net loans increased \$25.6 million or 31.0%, to \$108.2 million at June 30, 2010, compared to \$82.6 million at December 31, 2009. Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction, residential construction, commercial and industrial loans as well as home equity loans, consumer installment loans, and other consumer loans. Commercial real estate loans comprise the majority of the loan portfolio. Commercial and commercial real estate loans amounted to \$86.4 million at June 30, 2010 compared to \$64.6 million at December 31, 2009. Construction and land development loans amounted to \$20.5 million and \$16.5 million respectively, at those dates. The significant increases in our core bank loan growth is due to increased lending activity across all areas of our loan portfolio. At June 30, 2010, there were \$5.4 million in consumer loans outstanding compared to \$5.0 million at December 31, 2009.

Investment Securities:

Investment securities available-for-sale are investments that may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. The investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$10.1 million at June 30, 2010, an increase of \$2.5 million or 32.9%, from year-end 2009. The increase resulted from purchases of two agency securities totaling \$4.0 million partially offset by pay downs of mortgage-backed securities totaling \$1.6 million. At June 30, 2010, and December 31, 2009, the portfolio had net unrealized gains of \$477,000 and \$399,000, respectively.

Cash and Cash Equivalents:

Cash and due from banks, interest-bearing deposits and federal funds sold comprise this category, which consists of FBD's most liquid assets. The aggregate amount in these three categories increased by \$7.9 million to \$44.6 million at June 30, 2010 from \$36.7 million at December 31, 2009 reflecting increased deposit balances.

Restricted Bank Stock:

FBD is a member of the Federal Home Loan Bank of Pittsburgh ("FHLB") and, as such, has been required to maintain stock at FHLB in proportion to its outstanding FHLB advances. We have no outstanding borrowings from FHLB, but due to the suspension of dividend payments and stock redemptions by the FHLB our stock holdings have remained constant at \$415,000 since the first quarter of 2009.

During the second quarter of 2009, FBD purchased 600 shares of stock in Atlantic Central Bankers Bank (“ACBB”) as a support to our line of credit with ACBB. The stock totaled \$60,000 at June 30, 2010 and December 31, 2009. This amount is included in “Restricted Stock” on our balance sheet.

Premises and Equipment:

Bank premises and equipment, net of accumulated depreciation was \$2.8 million at June 30, 2010 and \$3.0 million at December 31, 2009. Minimal purchases of new equipment were offset by depreciation.

Bank Owned Life Insurance:

The income earned on these policies is reflected in non-interest income. Bank owned life insurance amounted to \$1.9 million at June 30, 2010 and December 31, 2009.

Other Real Estate Owned

Other real estate owned is comprised of two properties the Bank acquired through loan defaults. The value of properties we held totaled \$1.0 million at June 30, 2010 and December 31, 2009. We wrote down one of the properties by \$25,000 in the first quarter of 2010.

Other Assets:

Other assets increased by \$1.0 million to \$7.8 million at June 30, 2010, compared to December 31, 2009 due to increased receivables from third party vendors. FBD had no intangible assets on its balance sheet at June 30, 2010 or December 31, 2009.

Deposits:

Deposits, which include non-interest and interest-bearing demand deposits, money market, savings and time deposits and may include some brokered deposits, represent our major sources of funding. Deposits are generally solicited from the Delaware market area through the offering of a variety of products to attract and retain customers, with a primary focus on multi-product relationships. We also obtain deposits through relationships with our cash management and card product customers.

Total deposits increased by \$36.8 million to \$131.5 million at June 30, 2010, from \$94.7 million at December 31, 2009. The increase reflected the growth of our multi-product relationships and increases in our core banking activities. The expansion of our electronic payments business which includes merchant acquiring services, and RCC and ACH transaction processing, has contributed to the growth in deposits and has offset the decline resulting from the exiting of third party relationships. We chose not to renew our investment in brokered deposits and which lead to a decrease in time deposits of \$3.8 million to \$28.2 million at June 30, 2010, compared to \$32.0 million at December 31, 2009.

Other Liabilities:

Accrued interest payable, accrued expenses and other liabilities, in the aggregate, decreased by \$646,000 or 15.4% to \$3.6 million at June 30, 2010 from \$4.2 million at December 31, 2009. The decrease is primarily due to decreased payables held on our books.

Shareholders' Equity:

Total shareholders' equity increased \$893,000 to \$42.3 million at June 30, 2010, compared to \$41.4 million at December 31, 2009. This increase primarily reflected net income of \$798,000.

Three Months Ended June 30, 2010 Compared to June 30, 2009

Results of Operations:

Overview

Our net income increased to \$459,000 or \$0.04 per diluted share for the three months ended June 30, 2010, compared to \$237,000, or \$0.02 per diluted share for the comparable prior year period. The \$222,000 increase in after tax net income reflected a \$1.4 million increase in net interest income and a \$450,000 decline in provision for loan losses. The improvement in these items was partially offset by a \$1.7 million decrease in credit card income due to our termination of third party products. Increases in cash management fees of \$503,000 and in consumer loan fees of \$254,000 were partially offset by increased non-interest expenses of \$542,000. These were the primary factors which resulted in a return on average assets and average equity of 1.03% and 4.38% respectively, in the second quarter of 2010 compared to 0.82% and 2.37% respectively for the same period in 2009.

Analysis of Net Interest Income

In addition to significant amounts of consumer loan and credit card fee income, historically, FBD's earnings have depended significantly upon net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is impacted by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities.

The following table sets forth an analysis of net interest income by major categories of interest earning assets and interest bearing liabilities and the related yields and costs for the three months ended June 30, 2010 and 2009.

Interest-earning assets: (Dollars in thousands)	For the three months ended June 30, 2010			For the three months ended June 30, 2009		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Federal funds sold and other interest- earning assets	\$ 48,015	\$ 38	0.32%	\$ 15,057	\$ 8	0.22%
Securities	10,059	113	4.50%	17,996	182	4.05%
Loans receivable	106,601	3,595	13.53%	72,425	2,104	11.65%
Total interest-earning assets	<u>164,675</u>	<u>3,746</u>	<u>9.12%</u>	<u>105,478</u>	<u>2,294</u>	<u>8.72%</u>
Other assets	<u>13,266</u>			<u>11,092</u>		
Total assets	<u>\$ 177,941</u>			<u>\$ 116,570</u>		
Interest-bearing liabilities:						
Demand-non interest bearing	\$ 43,460			\$ 22,258		
Demand interest-bearing	6,040	\$ 7	0.47%	694	\$ 3	1.56%
Money market & savings	50,700	185	1.46%	31,017	114	1.47%
Time deposits	32,504	151	1.86%	18,406	116	2.53%
Total deposits	<u>132,704</u>	<u>343</u>	<u>1.04%</u>	<u>72,375</u>	<u>233</u>	<u>1.29%</u>
Total interest-bearing deposits	<u>89,244</u>	<u>343</u>	<u>1.54%</u>	<u>50,117</u>	<u>233</u>	<u>1.86%</u>
Other borrowings	<u>-</u>	<u>-</u>	<u>0.00%</u>	<u>198</u>	<u>-</u>	<u>0.00%</u>
Total interest-bearing liabilities	<u>\$ 89,244</u>	<u>\$ 343</u>	<u>1.54%</u>	<u>\$ 50,315</u>	<u>\$ 233</u>	<u>1.86%</u>
Total deposits and other borrowings	<u>132,704</u>	<u>343</u>	<u>1.04%</u>	<u>72,573</u>	<u>233</u>	<u>1.29%</u>
Non interest-bearing liabilities	3,166			3,804		
Shareholders' equity	<u>42,071</u>			<u>40,193</u>		
Total liabilities and shareholders' equity	<u>\$ 177,941</u>			<u>\$ 116,570</u>		
Net interest income		<u>\$ 3,403</u>			<u>\$ 2,061</u>	
Net interest spread			<u>7.58%</u>			<u>6.86%</u>
Net interest margin			<u>8.29%</u>			<u>7.84%</u>

The rate volume table below presents an analysis of the impact on interest income and expense resulting from changes in average volumes and rates during the period. Changes due to rate and volume variances have been allocated to rate.

Rate/Volume Table

	Due to change in:		
	Volume	Rate	Total
Interest earned on:			
Federal funds sold	\$ 26	\$ 4	\$ 30
Securities	(89)	20	(69)
Loans	1,153	338	1,491
Total interest-earning assets	1,090	362	1,452
Interest expense of			
deposits:			
Interest-bearing demand deposits	(6)	2	(4)
Money market and savings	(72)	1	(71)
Time deposits	(66)	31	(35)
Total deposit interest expense	(144)	34	(110)
Other borrowings	-	-	-
Total interest expense	(144)	34	(110)
Net interest income	\$ 946	\$ 396	\$ 1,342

The net interest margin increased 45 basis points to 8.29% for the three months ended June 30, 2010, compared to the prior year comparable period. The majority of the increase resulted from an increase in yield on our consumer installment loans and an increase in commercial loan balances. Accordingly the average yield on interest earning assets also increased 40 points to 9.12% for the three months ended June 30, 2010, from 8.72% for the prior year comparable period. Without the consumer installment loans, net interest margins would have been approximately 3.12% in second quarter 2010 and 3.28% in second quarter 2009. The resulting 18 basis point decrease reflected the impact of higher levels of lower yielding fed funds sold. The average rate paid on interest-bearing liabilities decreased 32 basis points to 1.54% for the three months ended June 30, 2009, from 1.86% in the prior year comparable period, as FBD did not renew higher priced fixed rate time deposits as we anticipated further declines in interest rates. Yields on total deposits also decreased 25 basis points, to 1.04% in second quarter 2010 from 1.29% in second quarter 2009 primarily as a result of the declining rate environment.

FBD's net interest income increased \$1.3 million, or 65.1%, to \$3.4 million for the three months ended June 30, 2010, from \$2.1 million for the prior year comparable period. The increase resulted primarily from higher loan balances and higher rates thereon. A \$110,000 increase in interest expense primarily reflected the increase in interest bearing deposits partially offset by the 32 basis point decrease in rates.

Total interest income increased \$1.4 million, or 63.3%, to \$3.7 million for the three months ended June 30, 2010, from \$2.3 million for the prior year comparable period. Interest and fees on loans increased \$1.5 million, or 70.9% to \$3.6 million for the three months ended June 30, 2010, from \$2.1 million for the prior year comparable period. The increase reflected higher loan balances and higher yields on loans. Average commercial loan balances increased \$32.4 million and the yield on those loans increased 42 basis points to 5.82%. This led to a \$538,000 increase in interest income. The average balances on our consumer installment loans decreased by \$1.2 million, but due to an increase in yields our interest income on these products increased by \$922,000. Interest and dividends on investment securities decreased \$69,000, or 37.9% to \$113,000 for the three months ended June 30, 2010, from \$182,000 for the prior year comparable period, as average balances were \$7.9 million lower in the second quarter of 2010, due to maturities of FHLB discount notes later in 2009 and pay-downs on mortgage backed securities. Excess liquidity was generally invested in overnight federal funds sold. The Bank maintains excess liquidity in federal funds sold so that it is immediately available in the event of unforeseen liquidity requirements. Federal funds sold income increased \$30,000, to \$38,000 in second quarter 2010, compared to \$8,000 in second quarter 2009. The increase reflected a \$33.0 million increase in balances and a 10 basis point increase in rates in second quarter 2010 compared to the second quarter 2009.

Total interest expense increased \$110,000, or 47.2%, to \$343,000 for the three months ended June 30, 2010, from \$233,000 for the prior year comparable period. That increase reflected the impact of higher levels of interest bearing deposits which offset lower interest rates on the cost of interest-bearing liabilities which decreased 32 basis points to 1.54% in second quarter 2010 from 1.86% in second quarter 2009. Average interest-bearing liabilities increased \$39.1 million, or 78.1%, to \$89.2 million in second quarter 2010, from \$50.1 million in second quarter 2009.

Interest expense on time deposits (certificates of deposit) increased \$35,000, or 30.4%, to \$151,000 for second quarter 2010, from \$116,000 for the prior year comparable period. This increase reflected increased volume in time deposits partially offset by lower rates paid on time deposits. Average time deposits outstanding increased \$14.1 million, or 76.6%, to \$32.5 million, from \$18.4 million in the prior year comparable period. The increase was due in part to FBD paying slightly above market interest rates on time deposits during the second quarter of 2010 and also the result of increased deposits through our commercial relationships.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management determines is adequate to absorb losses inherent in our loan portfolio. The provision for loan losses decreased by \$500,000 to \$1.1 million for the three months ended June 30, 2010, from \$1.6 million for the prior year comparable period. Our provision expense for commercial loans decreased in second quarter 2010, and totaled \$50,000 compared to \$950,000 in the second quarter of 2009. The provision for 2009 was mainly allocated to specific reserves set aside for loans downgraded in the second quarter of 2009. Provision expense for credit cards declined to \$0 in the second quarter of 2010 from \$150,000 at June 30, 2009 due to the sale of this portfolio in fourth quarter 2009. The provision for our consumer installment loans increased to \$1.0 million at June 30, 2010 from \$450,000 at June 30, 2009. The increase was due to a higher volume of loans originated in second quarter 2010. Our provision for the three months ended June 30, 2010 reflected loan growth, general economic factors, and the consideration of our primary regulator, the FDIC. Management continues to review our loan portfolio to determine the extent, if any, to which additional loss provisions may be necessary. There can be no assurance that the allowance for losses will be adequate to cover losses which may in fact be realized in the future and that additional provisions for losses will not be required.

Non-Interest Income

Total non-interest income decreased \$917,000 to \$1.6 million for the three months ended June 30, 2010, versus \$2.5 million for the prior year comparable period. The decrease reflected a decrease of \$1.7 million, or 93.4% in card products income partially offset by a \$503,000 increase in cash management income, which includes electronic payment processing and check casher programs, and an increase of \$254,000 in consumer loan fee related income. The increase in loan income resulted primarily from an improved rate of return we experienced between the periods. The decline in card revenue reflected the termination of third party relationships. The primary marketer for our third party credit cards generated \$1.4 million in revenue or 29.0% of total revenue in second quarter 2009. The accounts with this marketer were closed and transferred in fourth quarter of 2009 and FBD no longer earns revenue on those accounts. This source of revenue has been largely eliminated due to our exit from certain lines of business, the termination of certain relationships with third parties as a result of the FDIC Order, and lower originations.

Non-Interest Expense

Total non-interest expense increased \$542,000, or 20.6% to \$3.2 million for the three months ended June 30, 2009, from \$2.6 million for the prior year comparable period. Salaries and employee benefits increased \$102,000 or 6.1%, to \$1.8 million for the three months ended June 30, 2010, from \$1.7 million for the prior year comparable period. The \$102,000 increase reflected an \$80,000 charge for severance expenses and an increase in incentive compensation.

Occupancy expense increased \$4,000, or 2.5%, to \$165,000 for second quarter 2010, versus \$161,000 for second quarter 2009. The increase reflected increases in rent expenses between the periods.

Depreciation expense increased \$4,000, or 3.6% to \$116,000 for the three months ended June 30, 2010, versus \$112,000 for the prior year comparable period.

Legal fees increased \$64,000, or 200.0%, to \$96,000 in second quarter 2010, compared to \$32,000 in second quarter 2009. The increase reflected expenses related to development of our card products incurred in 2010.

Installment loan expenses amounted to \$45,000 for second quarter 2010. The expenses represent costs incurred in managing our installment loan program.

Professional fees increased \$38,000, or 79.2% to \$86,000 in second quarter 2010, compared to \$48,000 in the comparable prior year period. The increase reflected card product development and consulting fees incurred in 2010.

Data processing and operational expense increased \$39,000, or 36.5%, to \$146,000 in second quarter 2010 from \$107,000 in second quarter 2009. The increase reflected increased processing charges related to our community banking functions and cash management products.

Credit card program processing expense increased \$88,000 or 154.4%, to \$145,000 in second quarter 2010, compared to \$57,000 in the comparable prior year period. The increase reflected product development costs for our secured credit card.

Insurance expense decreased \$5,000, or 6.8%, to \$68,000 for second quarter 2010, versus \$73,000 for second quarter 2009. The decrease reflected decreases in our annual premiums between the periods.

The FDIC insurance expense increased \$23,000 or 36.5% to \$86,000 in second quarter 2010 from \$63,000 in 2009. The increase resulted primarily from increases in our deposit base and an increase in our assessment rate effective since second quarter 2009.

Delaware franchise tax increased \$36,000, or 1,800.0%, to \$38,000 in second quarter 2010 from \$2,000 in second quarter 2009. The increase resulted primarily from increased taxable income.

Other expenses increased \$104,000 or 32.7%, to \$422,000 for the three months ended June 30, 2010, from \$318,000 for the prior year comparable period. The increase was due to, a \$36,000 increase in audit and accounting expense, a \$28,000 increase in OREO expenses, a \$24,000 increase in correspondent bank charges resulting from the growth in our cash management products and a \$17,000 increase in money transmitter expenses.

Provision for Income Taxes

The provision for income taxes increased \$111,000, or 87.4% to \$238,000 for the three months ended June 30, 2010, from \$127,000 for the prior year comparable period. The increase was primarily the result of the increase in pre-tax income. The effective tax rate was approximately 34% in 2010 and 2009.

Six Months Ended June 30, 2010 Compared to June 30, 2009

Results of Operations:

Overview

Our net income increased to \$798,000 or \$0.07 per diluted share for the six months ended June 30, 2009, compared to \$701,000, or \$0.06 per diluted share for the comparable prior year period primarily reflecting increased net interest income. The \$97,000 increase in after tax net income reflected a \$2.4 million increase in net interest income and a \$350,000 reduction in provision expenses partially offset by a \$2.3 million decline in non-interest income. The increase in net interest income reflected the increased loan growth and increased rates thereon. These factors were the key reason our net interest margin increased 58 basis points between the periods. The decline in non-interest income reflected the termination of certain third party card programs. These were the primary factors which resulted in a return on average assets and average equity of 0.97% and 3.84% respectively, in the six months ended 2010 compared to 1.22% and 3.52% respectively for the same period in 2009. The lower return on average assets for 2010 was the result of an increase in our deposit base which was deployed into lower yielding federal funds sold.

Analysis of Net Interest Income

In addition to significant amounts of consumer loan and credit card fee income, historically our earnings have depended significantly upon net interest income, which is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is impacted by changes in the mix of the volume and rates of interest-earning assets and interest-bearing liabilities.

The following table sets forth an analysis of net interest income by major categories of interest earning assets and interest bearing liabilities and the related yields and costs for the six months ended June 30, 2010 and 2009.

Interest-earning assets: (Dollars in thousands)	For the six months ended June 30, 2010			For the six months ended June 30, 2009		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Federal funds sold and other interest- earning assets	\$ 44,591	\$ 60	0.27%	\$ 11,997	\$ 15	0.26%
Securities	10,175	248	4.87%	20,041	399	3.98%
Loans receivable	98,612	6,935	14.18%	73,500	4,234	11.61%
Total interest-earning assets	153,378	7,243	9.51%	105,538	4,648	8.87%
Other assets	13,306			10,754		
Total assets	<u>\$ 166,684</u>			<u>\$ 116,292</u>		
Interest-bearing liabilities:						
Demand-non interest bearing	\$ 38,336			\$ 29,215		
Demand interest-bearing	4,273	\$ 10	0.47%	470	\$ 4	1.54%
Money market & savings	45,776	329	1.45%	26,787	181	1.37%
Time deposits	32,930	300	1.84%	15,412	223	2.90%
Total deposits	121,315	639	1.06%	71,884	408	1.14%
Total interest-bearing deposits	82,979	639	1.55%	42,669	408	1.93%
Other borrowings	-	-	0.00%	552	2	0.73%
Total interest-bearing liabilities	<u>\$ 82,979</u>	<u>\$ 639</u>	<u>1.55%</u>	<u>\$ 43,221</u>	<u>\$ 410</u>	<u>1.91%</u>
Total deposits and other borrowings	121,315	639	1.06%	72,436	410	1.14%
Non interest-bearing liabilities	3,499			3,663		
Shareholders' equity	41,870			40,193		
Total liabilities and shareholders' equity	<u>\$ 166,684</u>			<u>\$ 116,292</u>		
Net interest income		<u>\$ 6,604</u>			<u>\$ 4,238</u>	
Net interest spread			<u>7.96%</u>			<u>6.96%</u>
Net interest margin			<u>8.67%</u>			<u>8.09%</u>

The rate volume table below presents an analysis of the impact on interest income and expense resulting from changes in average volumes and rates during the period. Changes due to rate and volume variances have been allocated to rate.

Rate/Volume Table

	Six months ended June 30, 2010 versus June 2009 (dollars in thousands)		
	Due to change in:		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest earned on:			
Federal funds sold	\$ 44	\$ 1	\$ 45
Securities	(240)	89	(151)
Loans	1,766	935	2,701
Total interest-earning assets	1,570	1,025	2,595
Interest expense of deposits:			
Interest-bearing demand deposits	(9)	3	(6)
Money market and savings	(137)	(11)	(148)
Time deposits	(160)	83	(77)
Total deposit interest expense	(306)	75	(231)
Other borrowings	2	-	2
Total interest expense	(304)	75	(229)
Net interest income	\$ 1,266	\$ 1,100	\$ 2,366

Our net interest margin increased 58 basis points to 8.67% for the six months ended June 30, 2010, versus the prior year comparable period. The majority of the increase resulted from an increase in yield on our consumer installment loans and an increase in the volume and yield in our commercial loan portfolio. Accordingly the average yield on interest earning assets increased 68 basis points to 9.52% for the first six months of 2010 from 8.87% for the comparable prior year period. Without the consumer installment loans, net interest margins would have been approximately 3.06% for the first six months of 2010 and 3.50% for the comparable prior year period. The resulting 46 basis point decline reflected the impact of a declining rate environment and higher levels of lower yielding federal funds sold. The average rate paid on interest bearing liabilities decreased 36 basis points to 1.55% for the six months ended June 30, 2010 from 1.91% in the prior year comparable period, as FBD chose not to renew higher priced fixed rate time deposits as it anticipated further declines in interest rates. Yields on total deposits also decreased 8 basis points, to 1.06% in the six months ended June 30, 2010 from 1.14% in the prior year comparable period primarily as a result of the declining rate environment and higher levels of demand deposits.

Our net interest income increased \$2.4 million, or 55.8%, to \$6.6 million for the six months ended June 30, 2010, from \$4.2 million for the prior year comparable period. The increase resulted primarily from higher loan balances and higher rates thereon. A \$229,000 increase in interest expense primarily reflected the increase in interest bearing deposit balances offset by a decline in rates.

Total interest income increased \$2.6 million or 55.8%, to \$7.2 million for the six months ended June 30, 2010, from \$4.6 million for the prior year comparable period. Interest and fees on loans increased \$2.7

million, or 63.8%, to \$6.9 million for the six months ended June 30, 2010, from \$4.2 million for the prior year comparable period. The increase reflected higher loan balances and higher rates on loans. Average commercial loan balances increased \$23.4 million and the yield on those loans increased 39 basis points to 5.72%. This led to a \$802,000 increase in commercial loan interest income. The average balances on our consumer installment loans decreased by \$837,000, but due to an increase in yields our interest income on these products increased by \$1.9 million. Interest and dividends on investment securities decreased \$151,000, or 37.8%, to \$248,000 for the six months ended June 30, 2010, from \$399,000 for the prior year comparable period. Average balances were \$9.9 million lower during the first six months of 2010 due to the maturities of FHLB discount notes later in 2009, but the decrease was partially offset by an 89 basis point increase in yield. Federal funds sold income increased \$45,000 to \$60,000 in for the first six months of 2010, compared to \$15,000 in the comparable prior year period. The increase reflected higher average balances of federal funds sold as a result of deposit increases. The yields were comparable between the respective periods.

Total interest expense increased \$229,000, or 55.6%, to \$639,000 for the six months ended June 30, 2010, from \$410,000 for the prior year comparable period. That increase reflected the impact of higher levels of interest bearing deposits which offset the lower interest rates paid for such deposits which decreased 36 basis points to 1.55% in the six months of 2010 from 1.91% in the six months of 2009. Average interest bearing liabilities increased \$39.8 million or 92.0%, to \$83.0 million for the first six months of 2010, from \$43.2 million in the first six months of 2009.

Interest expense on time deposits (certificates of deposit) increased \$77,000, or 34.5%, to \$300,000 for the first six months of 2010, from \$223,000 for the prior year comparable period. This increase reflected increased volume in time deposits offset partially by lower rates and the maturity of higher cost time deposits. Average time deposits outstanding increased \$17.5 million or 113.7%, to \$32.9 million, for the six months ended June 30, 2010, from \$15.4 million in the prior year comparable period. The increase reflected an increase in retail time deposits booked in our market area and by an average of \$5.4 million in brokered time deposits held in 2010 which carry a significantly lower cost than our other time deposits. We began offering brokered time deposits in second quarter 2009. As of June 30, 2010 we no longer have any brokered time deposits on our books.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that management determines is adequate to absorb losses inherent in our loan portfolio. The provision for loan losses decreased by \$350,000 to \$1.9 million for the six months ended June 30, 2010, from \$2.3 million for the prior year comparable period. Our provision expense for commercial loans decreased in 2010, and totaled \$300,000 compared to \$1.1 million in the first six months of 2009. The decrease was due to additional provisions made in 2009 for loan charge offs and additional reserves required on some commercial loans. Provision expense for credit cards declined to \$0 in the first six months of 2010 from \$325,000 in the prior year comparable period due to the sale of this portfolio in fourth quarter 2009. The provision for our consumer installment loans increased to \$1.6 million for the six months ended June 30, 2010 from \$875,000 for the prior year comparable period. The increase was due to a higher volume of loans originated. Our provision for the six months ended June 30, 2010 reflected loan growth, general economic factors, and the consideration of our primary regulator, the FDIC. Management continues to review our loan portfolio to determine the extent, if any, to which additional loss provisions may be necessary. There can be no assurance that the allowance for losses will be adequate to cover losses which may in fact be realized in the future and that additional provisions for losses will not be required.

Non-Interest Income

Total non-interest income decreased \$2.3 million, or 44.1%, to \$2.9 million for the six months ended June 30, 2010, versus \$5.2 million for the prior year comparable period. The decline in revenue reflected a decrease of \$3.7 million, or 93.7% in fee income on credit and prepaid card products partially offset by a \$737,000 increase in cash management income, which includes electronic payment processing and check casher services, and a \$568,000 increase in consumer loan income. Credit and prepaid card income decreased primarily from a termination of third party relationships between the periods. One company that marketed FBD credit cards generated \$2.8 million in revenue or 28.2% of total revenues for the first six months of 2009, for FBD. The accounts with this marketer were closed and transferred in fourth quarter of 2009 and FBD will no longer earn revenue on these accounts. No revenue was earned from these accounts in the first six months of 2010. This source of revenue has been largely eliminated due to our exit from certain lines of business, the termination of relationships with certain third parties as a result of the FDIC Order, and lower originations. We currently offer our own internet consumer loan product. Fees on consumer loans represent income on loans sold or participated to third party purchasers. The increase in loan income resulted primarily from an improved rate of return we experienced between the periods. In 2009 we added electronic payment processing and check casher programs to our cash management business which increased non-interest income by \$737,000 to \$901,000 in 2010 compared to \$164,000 in the first six months of 2009.

Non-Interest Expenses

Total non-interest expenses increased \$257,000 or 4.2% to \$6.4 million for the six months ended June 30, 2010, from \$6.1 million for the prior year comparable period. Salaries and employee benefits decreased \$161,000, or 4.2%, to \$3.6 million for the six months ended June 30, 2009, from \$3.8 million for the prior year comparable period. The decrease primarily reflected reductions in incentive expenses which offset other increases in personnel costs.

Occupancy expense increased \$11,000, or 3.3%, to \$343,000 for the first six months of 2010, compared to \$332,000 for the comparable prior year period. The increase reflected increased rent and maintenance expenses.

Depreciation expense increased \$10,000, or 4.5% to \$232,000 for the first six months of 2010, compared to \$222,000 for the prior year comparable period.

Legal fees increased \$109,000, or 111.2%, to \$207,000 in the first six months of 2010, compared to \$98,000 in the comparable prior year period. The majority of the increase reflected legal fees paid in 2010 related to product development which included prepaid and credit cards and other loan products.

Professional fees decreased \$75,000, or 26.9% to \$204,000 in the first six months of 2010, compared to \$279,000 in the comparable prior year period. The decrease reflected reduced consulting fees related to business planning incurred in 2009.

Data processing expense increased \$38,000, or 15.1%, to \$290,000 in the first six months of 2010 from \$252,000 in the comparable prior year period. The increase was related to higher software charges and upgrades to our core bank processor.

Installment loan expenses amounted to \$105,000 for the first six months of 2010. The expenses represent cost incurred in managing our installment loan program.

Credit card program processing expense decreased to \$161,000 in the first six months of 2010, compared to \$180,000 in the comparable prior year period. The decrease reflected the reduction in processing and servicing expenses related to our card products.

Insurance expense increased \$19,000, or 14.4%, to \$151,000 for the first six months of 2010, compared to \$132,000 for the comparable prior year period. The increase reflected increases in our annual premiums between the periods.

The FDIC assessment increased \$52,000, or 60.5% to \$138,000 in the first six months of 2010, compared to \$86,000 in the comparable prior year period. The increase resulted primarily from increases in our deposit base between the periods and an increase in the assessment rate effective since second quarter 2009.

Delaware franchise tax increased \$27,000, or 71.1%, to \$65,000 in the first six months of 2010 from \$38,000 in the comparable prior year period. The increase resulted primarily from increased taxable income.

Other expenses increased \$141,000 or 19.8%, to \$853,000 for the six months ended June 30, 2010, from \$712,000 for the comparable prior year period. Other real estate owned expense increased \$51,000, dues and subscriptions increased \$43,000, expenses related to our cash management program increased \$38,000 and office supplies and printing increased \$35,000.

Provision for Income Taxes

The provision for income taxes increased \$56,000 to \$419,000 for the six months ended June 30, 2010, from \$363,000 for the prior year comparable period. This increase was primarily the result of the increase in pre-tax income. The effective tax rate was approximately 34% in 2010 and 2009.

Commitments, Contingencies and Concentrations

FBD is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit totaling \$20.6 million at June 30, 2010. These instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

Credit risk is defined as the possibility of sustaining a loss due to the failure of the other parties to a financial instrument to perform in accordance with the terms of the contract. The maximum exposure to credit loss under commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. FBD uses the same underwriting standards and policies in making credit commitments as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent potential credit risk were comprised of commitments to extend credit of approximately \$20.2 million and \$10.4 million and standby letters of credit of approximately \$373,000 and \$236,000 at June 30, 2010, and December 31, 2009, respectively. The \$9.8 million increase in commitments was primarily due to increases in construction commitments and commercial lending. The commitments for 2010 and 2009 include \$4.7 million in credit card commitments for which the resulting balances are sold after funding. Therefore such amounts are not indicative of actual future liquidity requirements. The Bank has the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. The Bank has written contingency plans that document the steps required to effectuate the termination of credit card lines. The purchasers maintain deposit balances at FBD which provide support for daily card funding. FBD closely monitors the liquidity resources of each purchaser.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other

termination clauses and many require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. FBD evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Standby letters of credit are conditional commitments that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable.

Regulatory Matters

The following table presents the FBD's capital regulatory ratios at June 30, 2010, and December 31, 2009:

	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
At June 30, 2010						
Total risk based capital.....	\$43,583	35.69%	\$9,769	8.00%	\$12,212	10.00%
Tier one risk based capital.....	42,025	34.41	4,885	4.00	7,328	6.00
Tier one leverage capital	42,025	23.66	7,105	4.00	8,881	5.00
At December 31, 2009						
Total risk based capital.....	\$42,377	45.50%	\$7,451	8.00%	\$9,314	10.00%
Tier one risk based capital.....	41,184	44.22	3,725	4.00	5,588	6.00
Tier one leverage capital	41,184	31.97	5,153	4.00	6,441	5.00

We currently exceed the levels required for a bank to be classified as "well capitalized". However, the FDIC may consider other criteria when determining such classifications, which criteria could result in a downgrading in such classifications. For instance, capital requirements are higher for consumer installment loans retained on the balance sheet.

Liquidity

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, take advantage of market opportunities and provide a cushion against unforeseen needs. Liquidity needs can be met by utilizing cash and federal funds sold, converting assets to cash through computer repurchase or sale various or drawing upon lines of credit cash generated by increasing deposits represents the primarily source of liquidity.

Regulatory authorities require us to maintain certain liquidity ratios and to maintain available funds, or the capability to obtain available funds at reasonable rates, in order to satisfy commitments to borrowers and

the demands of depositors. In response to these requirements, we have formed an Asset/Liability Committee (“ALCO”), comprised of members of the board of directors and senior management, which monitor such ratios. The purpose of the ALCO is in part, to monitor liquidity and adherence to the ratios in addition to managing the relative interest rate risk. ALCO meets at least quarterly.

Our most liquid assets, consisting of cash and due from banks, interest-bearing deposits with banks and federal funds sold, totaled \$44.6 million at June 30, 2010, compared to \$36.7 million at December 31, 2009, due primarily to an increase in cash and due from banks. Loan maturities and repayments, if not reinvested in loans, also are immediately available for liquidity. Funding requirements have historically been satisfied primarily by generating core deposits and certificates of deposit with competitive rates. At June 30, 2010, we had aggregate outstanding commitments (including unused lines of credit and letters of credit) of \$20.6 million. The commitments include \$4.7 million in credit card commitments for which the resulting balances are typically sold after funding; as a result, such amounts are not indicative of actual future liquidity requirements. We have the unilateral right to cancel the unused lines, in the unlikely event that that would become necessary or desirable. We have written contingency plans that document the steps required to effectuate the termination of credit card lines. Also, the purchasers maintain deposit balances at FBD which provide support for daily card funding. We closely monitor the liquidity resources of each purchaser. Time deposits scheduled to mature in one year totaled \$26.3 million at June 30, 2010. FBD anticipates that it will have sufficient funds available to meet its current commitments.

Our target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of our interest-earning assets with projected future outflows of deposits and other liabilities. We have a line of credit with the Federal Home Loan Bank of Pittsburgh with an approximate June 30, 2010 maximum borrowing capacity of \$32.9 million, which is rarely used. We have also established a rarely used contingency line of credit with a correspondent bank to assist in managing our liquidity position. A total of \$4.0 million was available under that line of credit at June 30, 2010. As of June 30, 2010, we had no related outstanding balances for either accommodation.

Our primary short-term funding sources are certificates of deposit and our securities portfolio. The circumstances that are reasonably likely to affect those sources are as follows. We have historically been able to generate certificates of deposit by matching Philadelphia and Delaware market rates or paying a premium rate of 25 to 50 basis points over those market rates. It is anticipated that this source of liquidity will continue to be available; however, its incremental cost may vary depending on market conditions. The securities portfolio is also available for liquidity. Numerous investment companies would likely provide repurchase agreements up to the amount of the market value of the securities.

The ALCO is responsible for managing liquidity and interest sensitivity. Its primary objective is to maximize net interest income while configuring the interest-sensitive assets and liabilities to manage interest rate risk and provide adequate liquidity. Decisions with respect to our securities portfolio generally reflect liquidity over other considerations.

Investment Securities Portfolio

At June 30, 2010, FBD had identified certain investment securities that are being held for indefinite periods of time, including securities that will be used as part of our asset/liability management strategy and that may be sold in response to changes in interest rates, prepayments and similar factors. These securities are classified as available for sale and are intended to increase the flexibility of our asset/liability management. Available for sale securities consisted primarily of U.S. Government Agency securities. The book and market values of investment securities available for sale were approximately \$9.6 and \$10.1

million as of June 30, 2010. The net unrealized gain on investment securities available for sale as of that date was \$477,000.

Loan Portfolio

Our loan portfolio consists of secured and unsecured commercial loans including commercial real estate loans, loans secured by one-to-four family residential property, commercial construction, residential construction, as well as home equity loans, consumer installment loans, and other consumer loans. Commercial loans are primarily term loans made to small to medium-sized businesses and professionals for working capital, asset acquisition and other purposes. Commercial loans are originated as either fixed or variable rate loans with typical terms of 1 to 5 years. Our commercial loans typically range between \$250,000 and \$3,000,000 but customers may borrow significantly larger amounts up to the secured legal lending limit of approximately \$11.5 million at June 30, 2010. Individual customers may have several loans often secured by different collateral. The majority of consumer installment loans and credit card receivables are sold or participated without recourse, as internal guidelines limit the retention of such loans to 25% of capital. Net loans increased \$25.6 million, to \$108.2 million at June 30, 2010, from \$82.6 million at December 31, 2009. Lending activity has increased across all areas of our loan portfolio. FBD has recently increased its commercial lending staff and is actively pursuing new commercial lending opportunities.

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

(dollars in thousands)	As of June 30, 2010		As of December 31, 2009	
	Balance	% of Total	Balance	% of Total
Commercial and				
commercial real estate	\$ 70,511	62.8	\$ 59,011	68.6
Construction and land development	20,547	18.3	16,471	19.1
Commercial and industrial	14,893	13.3	4,566	5.3
Unsecured	949	0.8	949	1.1
	<u>106,900</u>	<u>95.2</u>	<u>80,997</u>	<u>94.1</u>
Consumer installment loans	5,279	4.7	4,989	5.8
Consumer - other loans	96	0.1	90	0.1
Total loans	<u>112,275</u>	<u>100%</u>	<u>86,076</u>	<u>100%</u>
Less: allowance for loan losses	<u>(4,033)</u>		<u>(3,512)</u>	
Net loans	<u>\$ 108,242</u>		<u>\$ 82,564</u>	

Credit Quality

Our written lending policies require specified underwriting, loan documentation and credit analysis standards to be met prior to funding, with independent credit department approval for the majority of new loan balances. A committee of our board of directors oversees the loan approval process to monitor that proper standards are maintained, while approving the majority of commercial loans.

Loans, including impaired loans, are generally classified as non-accrual if they are past due as to maturity or payment of interest or principal 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. We have one relationship totaling \$1.6 million which is classified as non-accrual but for which the customer is currently making payments. Payments made to this loan are applied to principal.

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 by the borrower, in accordance with the contractual terms.

While a loan is classified as non-accrual or as an impaired loan and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. When the future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a non-accrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

The following summary shows information concerning loan delinquency and other non-performing assets at the dates indicated.

	June 30, 2010	December 31, 2009
(dollars in thousands)		
Loans accruing, but past due 90 days or more	\$ -	\$ 240
Non-accrual loans	2,158	2,346
Total non-performing loans (1)	2,158	2,586
Other real estate owned	1,024	1,049
Total non-performing assets (2)	<u>\$ 3,182</u>	<u>\$ 3,635</u>
Non-performing loans as a percentage of total loans net of unearned income	1.92%	3.00%
Non-performing assets as a percentage of total assets	1.79%	2.59%

- (1) Non-performing loans are composed of (i) loans that are on a nonaccrual basis; (ii) accruing loans that are 90 days or more past due and (iii) restructured loans.

- (2) Non-performing assets are composed of non-performing loans and other real estate owned (assets acquired in foreclosure).

Non-performing loans of \$2.2 million at June 30, 2010 were decreased from \$2.6 million at December 31, 2009, primarily as a result of a past due loan returning to current status. There were no loans accruing, but past due 90 days or more at June 30, 2010.

Problem loans consist of loans that are included in performing loans, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At June 30, 2010, all identified problem loans are included in the preceding table or are classified with a specific reserve allocation in the allowance for loan losses (see "Allowance For Loan Losses"). Management believes that the appraisals and other estimates of the value of the collateral pledged against the non-accrual loans generally exceed the amount of its outstanding balances.

Other Real Estate Owned:

There were two properties held in other real estate owned at June 30, 2010 with a value of \$1.0 million. We wrote down one property by \$25,000 in the first quarter of 2010.

Allowance for Loan Losses

An analysis of the allowance for loan losses for the six months ended June 30, 2010, and 2009, and the year ended December 31, 2009 is as follows:

(dollars in thousands)	For the six months ended June 30, 2010	For the year ended December 31, 2009	For the six months ended June 30, 2009
Balance at beginning of period.....	\$3,512	\$ 2,935	\$2,935
Charge-offs:			
Commercial and commercial real estate.....	-	634	154
Construction and land development.....	-	363	363
Credit cards.....	-	1,128	584
Consumer installment loans.....	1,686	2,182	1,087
Consumer.....	-	-	-
Total charge-offs	<u>1,686</u>	<u>4,307</u>	<u>2,188</u>
Recoveries:			
Commercial and commercial real estate....	-	-	-
Credit cards.....	-	12	6
Consumer installment loans.....	282	452	160
Consumer.....	-	46	46
Total recoveries.....	<u>282</u>	<u>510</u>	<u>212</u>
Net charge-offs	<u>1,404</u>	<u>3,797</u>	<u>1,976</u>
Provision for loan losses.....	<u>1,925</u>	<u>4,374</u>	<u>2,275</u>
Balance at end of period.....	<u>\$4,033</u>	<u>\$3,512</u>	<u>\$3,234</u>
Average loans outstanding (1).....	<u>\$98,613</u>	<u>\$76,858</u>	<u>\$73,500</u>
As a percent of average loans (1):			
Net charge-offs (annualized).....	2.85%	4.94%	5.37%
Provision for loan losses (annualized).....	3.90%	5.69%	6.19%
Allowance for loan losses.....	4.09%	4.57%	4.40%
Allowance for loan losses to:			
Total loans, net of unearned income at period end	3.59%	4.08%	4.57%
Total non-performing loans at period end.....	186.89%	135.81%	469.38%

(1) Includes nonaccruing loans.

At June 30, 2010, and December 31, 2009, internally classified accruing loans totaled approximately \$3.1 million and \$3.2 million respectively. We had delinquent loans as follows: (i) 30 to 59 days past due, in the aggregate principal amount of \$316,000 at June 30, 2010 and \$594,000 at December 31, 2009; and (ii) 60 to 89 days past due, at June 30, 2010 and December 31, 2009, in the aggregate principal amount of \$204,000 and \$373,000, respectively.

The recorded investment in loans that are impaired in accordance with ASC 310 totaled \$4.6 at June 30, 2010, and \$4.9 million at December 31, 2009, and the amount of related valuation allowances was \$0 and \$0 million respectively. An additional reserve of \$531,000 has been established for the \$4.6 million at June 30, 2010 as the result of an FDIC examination. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that management believes is adequate to absorb losses inherent in our loan portfolio. The board of directors periodically reviews the status of all non-accrual and impaired loans and loans classified by regulators or the internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. The board of directors also considers specific loans, pools of similar loans, historical charge-off activity, economic conditions and other relevant factors in reviewing the adequacy of the loan loss reserve. Any additions deemed necessary to the allowance for loan losses are charged to operating expenses. We have an existing loan review program, which monitors the loan portfolio on an ongoing basis.

We have an existing loan review program for our community banking segment, through which we monitor the loan portfolio on an ongoing basis. In addition, FBD conducts monthly loan review meetings where it reviews all construction loans and all loans on its watch and classified list. The results of these meetings are submitted to the board of directors. We also meet monthly to review the portfolio performance of our consumer installment loans, credit line and credit card products.

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In our opinion, the allowance for loan losses was appropriate at June 30, 2010. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

It is not feasible to determine in which loan category future charge-offs and recoveries may occur. The entire allowance for loan losses is available to absorb loan losses in any loan category. The majority of the loan portfolio represents loans made for commercial purposes, while significant amounts of residential property may serve as collateral for such loans. FBD attempts to evaluate larger loans individually, on the basis of its loan review process, which scrutinizes loans on a selective basis, and other available information. Even if all commercial purpose loans could be reviewed, there is no assurance that information on potential problems would be available. The portfolio of consumer loans is evaluated in groups. At June 30, 2010, loans classified as commercial and construction, and consumer purposes respectively, amounted to \$106.9 million and \$5.4 million.

Effects of Inflation

The majority of assets and liabilities of a financial institution are monetary in nature. Therefore, a financial institution differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Management believes that the most significant impact of inflation on financial results is the need and ability to react to changes in interest rates. Management attempts to maintain a relatively balanced position between rate sensitive assets and liabilities over a one year time horizon in order to protect net interest income from being affected by excessive interest rate fluctuations.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information otherwise required by this item.

ITEM 4: CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Acting Chief Financial Officer, with the assistance of management, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this report (the “Evaluation Date”). Based on that evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Acting Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in internal controls.

There has not been any change in our internal control over financial reporting during our quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

DAS, WAC and Browning

On August 5, 2009, Data Access Systems Inc., or DAS, instituted a proceeding against us in the Chancery Court of the State of Delaware, in a matter styled *Data Access Systems Inc. v. First Bank of Delaware and Firstview LLC*. We had sponsored DAS with Visa and MasterCard so that DAS could have access to the Visa and MasterCard systems.

In January 2009, we became aware that DAS had not maintained its network according to the security standards prescribed by Visa and MasterCard. An investigation by a third party expert confirmed this and in March 2009, we initiated termination of DAS sponsorship. As a consequence of this security breach, substantial numbers of fraudulent transactions were executed over DAS’s computer network. Because we were DAS’s sponsoring member, we were responsible to Visa and MasterCard for any losses on these transactions on DAS’s network.

DAS then filed suit asking the court to order us to process its then current transactions. DAS also sought an accounting for funds that DAS claims are due to it by us. Finally, DAS is seeking money held by us relating to the DAS transactions, and purported damages, on a variety of overlapping legal bases to DAS’s business caused by our termination of our relationship with DAS, including purported damage caused by DAS’s inability to continue processing transactions for its customers.

In July 2009, we also terminated our sponsorship of another merchant, World Access Corporation, or WAC. We had sponsored WAC with Visa and MasterCard so that WAC could have access to the Visa and

MasterCard systems. WAC used its position as a sponsored member of Visa and MasterCard to provide operators of automated teller machines (ATMs) with access to the Visa and MasterCard networks. In connection with the termination, we determined that WAC owed us money arising out of the sponsorship relationship and withheld sufficient funds from WAC to cover WAC's indebtedness to us. On August 7, 2009, WAC instituted a proceeding against us in the Chancery Court of the State of Delaware, in a case styled *World Access Corporation and EFX Corporation v. First Bank of Delaware, Firstview, LLC and Great Northern Bank*.

WAC disputes that it owed any money to us. Consequently, WAC filed suit seeking the return of the money withheld by us, as well as damages that it purportedly sustained as a result of our cancellation of its relationship with WAC. WAC is seeking damages both for the disputed fees owed by it to us and for purported damages to its relationships with its customers who offer ATM services over the Visa and MasterCard network. This case was recently consolidated with the DAS case. After consolidation the court ordered the plaintiffs in the consolidated case to file a consolidated complaint by mid-March. The plaintiffs complied with this order and filed such a consolidated complaint. We answered the complaint, denied liability with respect to the plaintiffs claims, and included counterclaims against the plaintiffs based upon their respective breaches of Visa and MasterCard rules regarding maintaining the security of merchant computer systems.

On December 7, 2009, Billy S. Browning Jr. filed a putative class action complaint in the Superior Court of the State of Delaware in and for New Castle County, in a case styled as *Billy S. Browning, Jr., individually and as proprietor, owner and/or member of B & Brown, Inc., Onek, LLC, and Korwitt, LLC, on behalf of himself and a proposed class of those similarly situated, v. Data Access Systems, Inc. and First Bank of Delaware*. The issues presented in the case were originally presented in a motion for intervention into the DAS case.

The plaintiffs are three operators of ATMs that formerly gained access to the Visa and MasterCard networks through DAS. The case is putatively a class action and seeks to include all the operators of ATM machines who formerly accessed the Visa and MasterCard network through DAS as members of the class. The case, however, has not been certified as a class action.

The complaint alleges that when we terminated our relationship with DAS, we froze funds payable to DAS to cover the costs incurred by us as a result of DAS's operating an insecure network over the Visa and MasterCard system. The complaint seeks damages for the loss and use of those funds while the funds were withheld and purported damage to plaintiffs' businesses resulting from their lack of access to the Visa and MasterCard network. The complaint seeks these damages both from DAS and from us. We moved to dismiss the complaint for failure to state a claim and plaintiffs promptly moved to amend, yet again, in an attempt to avoid dismissal. As, in our view, the third amended complaint also fails to state a claim, we moved to dismiss it as well. In June 2010, the Court ordered full briefing on our motion to dismiss and we are preparing the briefs on the motion.

We previously included reports regarding these proceedings in our Annual Report on Form 10-K for the year ended December 31, 2009, or our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010. There were no material developments during the quarter ended June 30, 2010, with respect to any of the other legal proceedings reported in those Annual and Quarterly Reports.

Yulon Clerk

On September 23, 2009, the plaintiff filed a putative class action complaint against us in the Court of Common Pleas for Philadelphia County. On November 6, 2009, we removed the action to the United States District Court for the Eastern District of Pennsylvania. The matter is captioned as *Clerk v. First Bank of Delaware d/b/a Eastern Specialty Finance, Inc., d/b/a Check 'n Go*, Case No. 2:09-cv-5121-JD.

On November 16, 2009, we filed a motion to stay all proceedings and compel arbitration. On March 22, 2010, the court granted our motion to stay all proceedings and compel arbitration and directed the parties to

arbitrate plaintiff's claims in accordance with the terms of the parties' arbitration agreement. The court also stayed the case pending a final decision in arbitration.

To date, the plaintiff has not initiated arbitration.

At this time, it is too early to determine the likelihood of an unfavorable outcome or the ultimate liability, if any, resulting from this case. We expect that our defense costs will be paid by another entity pursuant to contractual indemnification agreements, and we expect that any liability resulting from this case will be paid by the other entity pursuant to the same indemnification agreements.

Other Matters

We previously reported on administrative enforcement actions taken by the FDIC and Illinois Department of Financial & Professional Regulation, Division of Financial Institutions, and on an action filed by the San Francisco City Attorney in the name of the People of the State of California in the Superior Court of the State of California, County of San Francisco, against First Bank of Delaware, Monetary Management of California, Inc. and Money Mart Express, Inc., and Check 'N Go of California, Inc. and its affiliated companies, in our Annual Report on Form 10-K for the year ended December 31, 2009. There were no material developments with respect to these actions during the quarter ended June 30, 2010.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of First Bank of Delaware, to take action upon the election of one director of the Company and an amendment to the Bank's Stock Option Plan was held on May 10, 2010 at 4:00 pm at 5301 Limestone Road, Suite 106 Wilmington, DE 19808. As of the record date of said meeting of the shareholders, the number of shares then issued and outstanding was 11,418,901 shares of common stock, of which 11,418,901 were entitled to vote. A total of 6,860,468 shares were voted. No nominee received less than 93.6 % of the voted shares. Therefore, pursuant to such approval, the following director was elected to the Company:

Harris Wildstein	3 year term	expires 2013	6,420,339 votes for, 440,129 votes withheld
Amendment to Stock Option Plan			5,374,909 votes for, 1,424,730 votes against

There were no broker non votes.

ITEM 6: 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)

Exhibit No.

- 31.1 Certification of the Chief Executive Officer and Acting Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act

- 32.1 Certification of the Chief Executive Officer and Acting Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

First Bank of Delaware

Alonzo J. Primus

President and Chief Executive Officer
Acting Chief Financial Officer

Dated: August 13, 2010

CERTIFICATION

I, Alonzo J. Primus, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Bank of Delaware (the "company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors :
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: August 13, 2010

Alonzo J. Primus
President and Chief Executive Officer
Acting Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, as filed with the Federal Deposit Insurance Corporation by First Bank of Delaware ("FBD") on the date hereof (the "Report"), I, Alonzo J. Primus, Chief Executive Officer and Acting Chief Financial Officer of FBD, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the FBD.

Date: August 13, 2010

By: _____
Alonzo J. Primus
President and Chief Executive Officer
Acting Chief Financial Officer

