

EAGLE BANCORP INC  
Form 10-Q  
May 12, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended March 31, 2008**

**OR**

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

**For the transition period from                    to                    .**

**Commission File Number 0-25923**

**Eagle Bancorp, Inc**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**7815 Woodmont Avenue, Bethesda, Maryland**  
(Address of principal executive offices)

**52-2061461**  
(I.R.S. Employer  
Identification No.)

**20814**  
(Zip Code)

**(301) 986-1800**

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

As of May 2, 2008, the registrant had 9,832,063 shares of Common Stock outstanding.

## Item 1 Financial Statements

**EAGLE BANCORP, INC.**

## Consolidated Balance Sheets

March 31, 2008 and December 31, 2007

(dollars in thousands)

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
<b>ASSETS</b>		
Cash and due from banks	\$ 18,117	\$ 15,408
Federal funds sold	16,013	244
Interest bearing deposits with banks and other short-term investments	2,230	4,490
Investment securities available for sale, at fair value	82,932	87,117
Loans held for sale	1,945	2,177
Loans	759,547	716,677
Less allowance for credit losses	(8,733)	(8,037)
Loans, net	750,814	708,640
Premises and equipment, net	6,445	6,701
Deferred income taxes	3,218	3,597
Bank owned life insurance	12,100	11,984
Other assets	5,653	6,042
<b>TOTAL ASSETS</b>	<b>\$ 899,467</b>	<b>\$ 846,400</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Noninterest bearing demand	\$ 143,508	\$ 142,477
Interest bearing transaction	47,822	54,090
Savings and money market	193,348	177,081
Time, \$100,000 or more	177,003	173,586
Other time	124,059	83,702
Total deposits	685,740	630,936
Customer repurchase agreements and federal funds purchased	61,727	76,408
Other short-term borrowings	22,000	22,000
Long-term borrowings	40,000	30,000
Other liabilities	6,463	5,890
Total liabilities	815,930	765,234
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$.01 par value; shares authorized 20,000,000, shares issued and outstanding 9,790,252 (2008) and 9,721,315 (2007)	98	97
Additional paid in capital	52,878	52,290
Retained earnings	29,258	28,195
Accumulated other comprehensive income	1,303	584
Total stockholders equity	83,537	81,166
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 899,467</b>	<b>\$ 846,400</b>

See notes to consolidated financial statements.

**EAGLE BANCORP, INC.**

## Consolidated Statements of Operations

For the Three Month Periods Ended March 31, 2008 and 2007 (unaudited)

(dollars in thousands, except per share data)

	2008	2007
<b>Interest Income</b>		
Interest and fees on loans	\$ 12,880	\$ 12,531
Interest and dividends on investment securities	1,095	1,181
Interest on federal funds sold	39	24
Total interest income	14,014	13,736
<b>Interest Expense</b>		
Interest on deposits	4,428	4,835
Interest on customer repurchase agreements and federal funds purchased	394	525
Interest on other short-term borrowings	190	108
Interest on long-term borrowings	402	299
Total interest expense	5,414	5,767
<b>Net Interest Income</b>	8,600	7,969
<b>Provision for Credit Losses</b>	720	303
<b>Net Interest Income After Provision For Credit Losses</b>	7,880	7,666
<b>Noninterest Income</b>		
Service charges on deposits	429	349
Gain on sale of loans	127	237
Gain on sale of investment securities	10	7
Increase in the cash surrender value of bank owned life insurance	116	107
Other income	258	298
Total noninterest income	940	998
<b>Noninterest Expense</b>		
Salaries and employee benefits	3,640	3,352
Premises and equipment expenses	1,080	1,208
Marketing and advertising	81	91
Legal, accounting and professional fees	170	144
Other expenses	1,237	1,254
Total noninterest expense	6,208	6,049
<b>Income Before Income Tax Expense</b>	2,612	2,615
<b>Income Tax Expense</b>	961	933
<b>Net Income</b>	\$ 1,651	\$ 1,682
<b>Earnings Per Share</b>		
Basic	\$ 0.17	\$ 0.18
Diluted	\$ 0.17	\$ 0.17
<b>Dividends Declared Per Share</b>	\$ 0.06	\$ 0.06

See notes to consolidated financial statements.

**EAGLE BANCORP, INC.**

## Consolidated Statements of Cash Flows

For the Three Month Periods Ended March 31, 2008 and 2007 (unaudited)

(dollars in thousands)

	2008	2007
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 1,651	\$ 1,682
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	720	303
Depreciation and amortization	332	327
Gains on sale of loans	(127)	(237)
Origination of loans held for sale	(10,423)	(10,158)
Proceeds from sale of loans held for sale	10,782	10,021
Increase in cash surrender value of BOLI	(116)	(107)
Gain on sale of investment securities	(10)	(7)
Stock-based compensation expense	33	47
Excess tax benefit from exercise of non-qualified stock options	(132)	13
Decrease (increase) in other assets	268	(190)
Increase in other liabilities	705	604
Net cash provided by operating activities	3,683	2,298
<b>Cash Flows From Investing Activities:</b>		
Decrease in interest bearing deposits with other banks and short term investments	2,260	282
Purchases of available for sale investment securities	(5,351)	(51)
Proceeds from maturities of available for sale securities	2,755	1,287
Proceeds from sale/call of available for sale securities	8,010	15,799
Net increase in loans	(42,894)	(11,995)
Bank premises and equipment acquired	(76)	(753)
Net cash (used in) provided by investing activities	(35,296)	4,569
<b>Cash Flows From Financing Activities:</b>		
Increase in deposits	54,804	3,596
Decrease in customer repurchase agreements and federal funds purchased	(14,681)	(3,021)
Increase in long-term borrowings	10,000	
Issuance of common stock	424	335
Excess tax benefit from exercise of non-qualified stock options	132	(13)
Payment of dividends and payment in lieu of fractional shares	(588)	(570)
Net cash provided by financing activities	50,091	327
<b>Net Increase In Cash And Due From Banks</b>	<b>18,478</b>	<b>7,194</b>
<b>Cash And Due From Banks At Beginning Of Period</b>	<b>15,652</b>	<b>28,977</b>
<b>Cash and Due from Banks At End Of Period</b>	<b>\$ 34,130</b>	<b>\$ 36,171</b>
<b>Supplemental Cash Flows Information:</b>		
Interest paid	\$ 5,124	\$ 5,828
Income taxes paid	\$ 675	\$ 483

See notes to consolidated financial statements.



## EAGLE BANCORP, INC.

## Consolidated Statements of Changes in Stockholders' Equity

For the Three Month Periods Ended March 31, 2008 and 2007 (unaudited)

(dollars in thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance, January 1, 2008	\$ 97	\$ 52,290	\$ 28,195	\$ 584	\$ 81,166
Comprehensive Income					
Net Income			1,651		1,651
Other comprehensive income:					
Unrealized gain on securities available for sale (net of taxes)				725	725
Less: reclassification adjustment for gains net of taxes of \$4 included in net income				(6)	(6)
Total Comprehensive Income					2,370
Cash Dividend (\$0.06 per share)			(588)		(588)
Shares issued under dividend reinvestment plan - 22,134 shares		261			261
Stock-based compensation		33			33
Exercise of options for 46,803 shares of common stock	1	162			163
Tax benefit on non-qualified options exercise		132			132
<b>Balance, March 31, 2008</b>	<b>\$ 98</b>	<b>\$ 52,878</b>	<b>\$ 29,258</b>	<b>\$ 1,303</b>	<b>\$ 83,537</b>
Balance, January 1, 2007	\$ 95	\$ 50,278	\$ 22,796	\$ (253)	\$ 72,916
Comprehensive Income					
Net Income			1,682		1,682
Other comprehensive income:					
Unrealized gain on securities available for sale (net of taxes)				67	67
Less: reclassification adjustment for gains net of taxes of \$3 included in net income				(4)	(4)
Total Comprehensive Income					1,745
Cash Dividend (\$0.06 per share)			(570)		(570)
Stock-based compensation		47			47
Exercise of options for 31,558 shares of common stock		335			335
Tax benefit adjustment on non-qualified options exercise		(13)			(13)
<b>Balance, March 31, 2007</b>	<b>\$ 95</b>	<b>\$ 50,647</b>	<b>\$ 23,908</b>	<b>\$ (190)</b>	<b>\$ 74,460</b>

See notes to consolidated financial statements.

**EAGLE BANCORP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three Months Ended March 31, 2008 and 2007 (unaudited)**

**1. BASIS OF PRESENTATION**

The consolidated financial statements of Eagle Bancorp, Inc. (the "Company") included herein are unaudited; however, they reflect all adjustments, consisting only of normal recurring accruals, that in the opinion of Management, are necessary to present fairly the results for the periods presented. The amounts as of and for the year ended December 31, 2007 were derived from audited consolidated financial statements. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. There have been no significant changes to the Company's Accounting Policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The Company believes that the disclosures are adequate to make the information presented not misleading. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results of operations to be expected for the remainder of the year, or for any other period. Certain reclassifications have been made to amounts previously reported to conform to the classifications made in 2008.

**2. NATURE OF OPERATIONS**

The Company, through EagleBank, its bank subsidiary (the "Bank"), conducts a full service community banking business, primarily in Montgomery County, Maryland and Washington, D.C. The primary financial services include real estate, commercial and consumer lending, as well as traditional deposit and repurchase agreement products. The Bank is also active in the origination and sale of residential mortgage loans and the origination of small business loans. The guaranteed portion of small business loans is typically sold through the Small Business Administration, in a transaction apart from the loan's origination. The Bank offers its products and services through nine banking offices and various electronic capabilities, including remote deposit services introduced in 2006. In July 2006, the Company formed Eagle Commercial Ventures, LLC ("ECV") as a direct subsidiary to provide subordinate financing for the acquisition, development and construction of real estate projects, whose primary financing would be done by the Bank. Prior to the formation of ECV, the Company engaged directly in occasional subordinate financing transactions, which involve higher levels of risk, together with commensurate returns.

**3. CASH FLOWS**

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, and federal funds sold (items with an original maturity of three months or less).

## 4. INVESTMENT SECURITIES

Amortized cost and estimated fair value of securities available for sale are summarized as follows:

(dollars in thousands)

March 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U. S. Government agency securities	\$ 42,316	\$ 1,856	\$	\$ 44,172
Mortgage backed securities	26,577	563		27,140
Municipal bonds	5,064		89	4,975
Federal Reserve and Federal Home Loan Bank stock	5,512			5,512
Other equity investments	1,278	7	152	1,133
	\$ 80,747	\$ 2,426	\$ 241	\$ 82,932

December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U. S. Government agency securities	\$ 50,428	\$ 885	\$ 18	\$ 51,295
Mortgage backed securities	29,218	220	135	29,303
Municipal bonds	357		6	351
Federal Reserve and Federal Home Loan Bank stock	4,870			4,870
Other equity investments	1,278	20		1,298
	\$ 86,151	\$ 1,125	\$ 159	\$ 87,117

Gross unrealized losses and fair value by length of time that the individual available securities have been in a continuous unrealized loss position as of March 31, 2008 are as follows:

(dollars in thousands)

March 31, 2008	Estimated Fair Value	Less than 12 months	More than 12 months	Gross Unrealized Losses
Municipal bonds	\$ 4,975	\$ 89	\$	\$ 89
Other equity investments	1,000	152		152
	\$ 5,975	\$ 241	\$	\$ 241

December 31, 2007	Estimated Fair Value	Less than 12 months	More than 12 months	Gross Unrealized Losses
-------------------	----------------------	---------------------	---------------------	-------------------------

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

U. S. Government agency securities	\$	5,982	\$		\$	18	\$	18
Mortgage backed securities		11,032		6		129		135
Municipal bonds		351		6				6
	\$	17,365	\$	12	\$	147	\$	159

The unrealized losses that exist are the result of changes in market interest rates since original purchases. Except for one municipal bond issue which has an underlying rating of AA, all of the remaining bonds are rated AAA. The weighted average duration of debt securities, which comprise 92% of total investment securities, is relatively short at 2.5 years. These factors, coupled with the Company's ability and intent to hold these investments

for a period of time sufficient to allow for any anticipated recovery in fair value substantiates that the unrealized losses are temporary in nature.

## 5. INCOME TAXES

The Company employs the liability method of accounting for income taxes as required by Statement of Financial Accounting Standards No. 109 ( SFAS ), Accounting for Income Taxes. Under the liability method, deferred-tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences reverse. The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes in the first quarter of 2007. The Company utilizes statutory requirements for its income tax accounting, and avoids risks associated with potentially problematic tax positions that may incur challenge upon audit, where an adverse outcome is more likely than not. Therefore, no provisions are made for either uncertain tax positions nor accompanying potential tax penalties and interest for underpayments of income taxes in the Company's tax reserves.

## 6. EARNINGS PER SHARE

Earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period, including any potential dilutive common shares outstanding, such as stock options. There were 325,518 shares and 170,535 shares as of March 31, 2008 and 2007, respectively, excluded from the diluted net income per share computation because their inclusion would be anti-dilutive.

## 7. STOCK-BASED COMPENSATION

The Company maintains the 1998 Stock Option Plan ( 1998 Plan ) and the 2006 Stock Plan ( 2006 Plan ). No additional options may be granted under the 1998 Plan. The 1998 Plan provided for the periodic granting of incentive and non-qualifying options to selected key employees and members of the Board. Option awards were made with an exercise price equal to the market price of the Company's shares at the date of grant. The option grants generally vested over a period of one to two years under the 1998 Plan.

The Company adopted the 2006 Plan upon approval by shareholders at the 2006 Annual Meeting held on May 25, 2006. The Plan provides for the issuance of awards of incentive options, nonqualifying options, restricted stock and stock appreciation rights with respect to up to 650,000 shares. The purpose of the 2006 Plan is to advance the interests of the Company by providing directors and selected employees of the Bank, the Company, and their affiliates with the opportunity to acquire shares of common stock, through awards of options, restricted stock and stock appreciation rights.

The Company also maintains the 2004 Employee Stock Purchase Plan (the ESPP ). Under the ESPP, a total of 253,500 shares of common stock, were reserved for issuance to eligible employees at a price equal to at least 85% of the fair market value of the shares of common stock on the date of grant. Grants each year expire no later than the last business day of January in the calendar year following the year in which the grant is made. No grants have been made under this plan in 2008.

The Company believes that awards under all plans better align the interests of its employees with those of its shareholders.

In January 2008, the Company awarded options to purchase 79,300 shares to employees and 34,000 shares to certain Directors under the 2006 Plan which have a five-year term and vest in three substantially equal installments on the date of grant, and the first and second anniversaries of the date of grant.

In January 2008, the Company awarded options to purchase 46,500 shares to six senior officers under the 2006 Plan which have a ten-year term. Of the total shares awarded, 21,500 vest in three substantially equal installments on the date of grant, and the first and second anniversaries of the date of grant. The remaining 25,000 shares awarded vest over a four year period beginning on the fifth anniversary date of the grant.

The fair value of each option grant and other equity based award is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions as shown in the table below used for grants during the three months ended March 31, 2008 and the twelve months ended December 31, 2007 and 2006.

Below is a summary of changes in shares under option (split adjusted) for the three months ended March 31, 2008. The information excludes restricted stock unit awards.

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
<b>As of 1/1/2008</b>					
Outstanding	752,944	\$ 10.09		\$ 3.28	
Vested	631,682	8.70		3.15	
Nonvested	121,263	17.36		3.92	
<b>Period activity</b>					
Issued	159,800	\$ 13.05		\$ 2.91	
Exercised	46,803	3.48		1.54	
Forfeited	200	16.97		3.31	
Expired	9,522	15.02		3.50	
<b>As of 3/31/2008</b>					
Outstanding	856,219	\$ 10.95	4.54	\$ 3.30	\$ 2,650,764
Vested	641,694	9.57	4.23	3.23	2,650,544
Nonvested	214,525	15.10	5.47	3.52	220

**Outstanding:**

Range of Exercise Prices	Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life
\$3.25 - \$8.75	272,056	\$ 4.83	2.57
\$8.76 - \$13.26	397,104	12.01	6.21
\$13.27 - \$17.77	86,938	16.81	3.37
\$17.78 - \$19.46	100,121	18.31	4.27
	856,219	10.95	4.54

**Exercisable:**

Range of Exercise Prices	Stock Options Exercisable	Weighted-Average Exercise Price
\$3.25 - \$8.75	272,056	\$ 4.83
\$8.76 - \$13.26	280,233	11.58
\$13.27 - \$17.77	23,348	16.85
\$17.78 - \$19.46	66,057	17.98
	641,694	9.57

**Assumptions:**

	Three Months Ended March 31, 2008	Year Ended 2007	Year Ended 2006
Expected Volatility	23.7 - 37.1%	18.5 - 24.4%	21.4 - 24.1%
Weighted-Average Volatility	27.02%	20.12%	22.62%
Expected Dividends	1.8%	1.4%	1.3%
Expected Term (In years)	3.5 - 9.0	3.1 - 4.0	0.5 - 3.4



Edgar Filing: EAGLE BANCORP INC - Form 10-Q

Risk-Free Rate	2.71%	4.73%	4.60%
Weighted-Average Fair Value (Grant date)	\$ 2.91	\$ 3.18	\$ 4.40

Total intrinsic value of options exercised during the period:	411,955
Total fair value of shares vested during the period:	220,930
Weighted-average period over which nonvested awards are expected to be recognized:	2.02years

The expected lives is based on the simplified method allowed by SAB No. 107, whereby the expected term is equal to the midpoint between the vesting date and the end of the contractual term of the award.

Included in salaries and employee benefits the Company recognized \$33 thousand (\$0.00 per share) and \$47 thousand (\$0.00 per share) in share based compensation expense for the three months ended March 31, 2008 and 2007, respectively. As of March 31, 2008 there was \$799 thousand of total unrecognized compensation cost related to non-vested equity awards under the Company's various share based compensation plans. The \$737 thousand of unrecognized compensation expense is being amortized over the remaining requisite service (vesting) periods through 2015.

## 8. NEW ACCOUNTING PRONOUNCEMENTS

### *Recent Accounting Pronouncements Adopted*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. SFAS 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS 123R and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. This pronouncement is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 as of January 1, 2008 and the adoption did not have a material impact on the consolidated financial statements or results of operations of the Company.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Statement 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted the provisions of SFAS 159 on January 1, 2008 and the adoption did not have a material impact on the consolidated financial statements or results of operations of the Company.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 ( SAB No. 110 ), *Certain Assumptions Used in Valuation Methods*, which extends the use of the simplified method, under certain circumstances, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123R. Prior to SAB No. 110, SAB No. 107 stated that the simplified method was only available for grants made up to December 31, 2007. The Company continues to use the simplified method in developing an estimate of the expected term of stock options.

### *Accounting Pronouncements Issued But Not Yet Effective*

In December 2007, the FASB issued SFAS 141(R), *Business Combinations (Revised 2007)* ( SFAS 141R ). SFAS 141R replaces SFAS 141, *Business Combinations*, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting.

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, Accounting for Contingencies. SFAS 141R is expected to have a significant impact on the Company's accounting for business combinations closing on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51* (SFAS 160). SFAS 160 amends Accounting Research

Bulletin (ARB) No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 is intended to enhance the current disclosure framework previously required for derivative instruments and hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* to include how and why an entity uses derivative instruments, how derivative instruments and related hedge items are accounted for and their impact on an entity's financial positions, results of operations, and cash flows. This standard is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. While the Company does not currently utilize derivative instruments, it is currently evaluating the impact of this new standard on its financial position, results of operations and cash flows.

## 9. FAIR VALUE MEASUREMENTS

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follow:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
- Level 3 Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Investment securities available for sale are the only balance sheet category the Company is required by generally accepted accounting principles to account for at fair value. The following table presents information about the Company's assets measured at fair value on a recurring basis as of March 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

(dollars in thousands)	Carrying Value (Fair Value)	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Trading Gains and (Losses)	Total Changes in Fair Values Included in Period Earnings
Investment securities available for sale	\$ 82,932	\$ 1,033	\$ 81,799	\$ 100	\$	\$

## 10. PENDING ACQUISITION

On December 2, 2007 the Company entered into a definitive agreement with Fidelity & Trust Financial Corporation ( Fidelity ) and its subsidiary Fidelity & Trust Bank for the Company to acquire Fidelity and for Fidelity & Trust Bank to be merged into EagleBank, with EagleBank being the surviving entity.

The combination is structured as a stock-for-stock exchange, under which Fidelity's shareholders (based on an original defined conversion ratio) will receive 0.9202 shares of Eagle common stock for each share of Fidelity common stock owned. The originally defined conversion ratio is subject to possible reductions under certain circumstances set forth in the merger agreement. Based upon the closing stock price for Eagle Bancorp Inc. on November 30, 2007 and the original defined conversion ratio, the aggregate value of the transaction would be \$48.8 million, or \$11.51 per share of Fidelity common stock. The value of the transaction at closing is expected to be lower, based on reductions in the conversion ratio which are expected to result from applications of the adjustment provisions of the merger agreement. Changes in the aggregate value of the transaction will also occur based on changes in the value of Eagle common stock. Following the completion of the merger, Fidelity & Trust's shareholders will own approximately 28% of Eagle Bancorp's outstanding common stock, based on the original defined conversion ratio. Two members of the Fidelity & Trust Financial Corporation Board will join the Eagle Bancorp, Inc. Board and four of their directors will join the EagleBank Board.

Eagle Bancorp, Inc. is the holding company for EagleBank which commenced operations in 1998. The bank is headquartered in Bethesda, Maryland, and conducts full service banking services through nine offices, located in Montgomery County, Maryland and Washington, D.C. The Company focuses on building relationships with businesses, professionals and individuals in its marketplace.

Fidelity & Trust Bank was founded and opened in November 2003. The Bank's mission is to provide its customers with customized banking solutions and above all, outstanding customer service.

In late December 2007, EagleBank approved a \$7 million demand line of credit to Fidelity which was secured by the stock of Fidelity & Trust Bank. That demand line of credit was increased to \$9 million in March, 2008. At March 31, 2008, EagleBank had \$9 million advanced under the line of credit facility which is included in Loans on the Consolidated Balance Sheets. The outstanding line amount bears interest at the prime interest rate less ¼%.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operation.

The following discussion provides information about the results of operations, and financial condition, liquidity, and capital resources of the Company and its subsidiaries as of the dates and periods indicated. This discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this report and the Management Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

## Edgar Filing: EAGLE BANCORP INC - Form 10-Q

This report contains forward looking statements within the meaning of the Securities Exchange Act of 1934, as amended, including statements of goals, intentions, and expectations as to future trends, plans, events or results of Company operations and policies and regarding general economic conditions. In some cases, forward looking statements can be identified by use of such words as may, will, anticipate, believes, expects, plans, estimates, potential, continue, should, and similar words or phrases. These statements are based upon current and anticipated economic conditions, nationally and in the Company's market, interest rates and interest rate policy, competitive factors and other conditions which, by their nature, are not susceptible to accurate forecast, and are subject to significant uncertainty. Because of these uncertainties and the assumptions on which this discussion and the forward looking statements are based, actual future operations and results in the future may differ materially from those indicated herein. Readers are cautioned against placing undue reliance on any such forward looking statements.

## GENERAL

The Company is a growth oriented, one-bank holding company headquartered in Bethesda, Maryland. The Company provides general commercial and consumer banking services through its wholly owned banking subsidiary the Bank, a Maryland chartered bank which is a member of the Federal Reserve System. The Company was organized in October 1997, to be the holding company for the Bank. The Bank was organized as an independent, community oriented, full service banking alternative to the super regional financial institutions, which dominate the primary market area. The Company's philosophy is to provide superior, personalized service to its customers. The Company focuses on relationship banking, providing each customer with a number of services, becoming familiar with and addressing customer needs in a proactive, personalized fashion. The Bank currently has six offices serving Montgomery County and three offices in the District of Columbia.

The Company offers a broad range of commercial banking services to its business and professional clients as well as full service consumer banking services to individuals living and/or working primarily in the service area. The Company emphasizes providing commercial banking services to sole proprietors, small and medium-sized businesses, partnerships, corporations, non-profit organizations and associations, and investors living and working in and near the primary service area. A full range of retail banking services are offered to accommodate the individual needs of both corporate customers as well as the community the Company serves. These services include the usual deposit functions of commercial banks, including business and personal checking accounts, NOW accounts and money market and savings accounts, business, construction, and commercial loans, equipment leasing, residential mortgages and consumer loans and cash management services. The Company has developed significant expertise and commitment as an SBA lender, has been designated a Preferred Lender by the Small Business Administration (SBA), and is a leading community bank SBA lender in the Washington D.C. district.

## PENDING ACQUISITION

In December 2007, the Company announced the signing of a definitive agreement to acquire Fidelity & Trust Financial Corporation (Fidelity & Trust), parent of Fidelity & Trust Bank. At December 31, 2007, Fidelity & Trust had \$447 million of assets. Fidelity & Trust Bank operates six locations, with one in Northern Virginia, three in Montgomery County, Maryland and two in the District of Columbia. The transaction is subject to regulatory and shareholder approvals and the satisfaction of other conditions, as set forth in the merger agreement. The transaction is currently anticipated to be completed in the third quarter of 2008.

Refer to Note 10 to the Consolidated Financial Statements on page 13 for further information on this transaction.

## CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to

record valuation adjustments for investment



securities available for sale are based either on quoted market prices or are provided by other third-party sources, when available.

The allowance for credit losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two principles of accounting: (a) Statement on Financial Accounting Standards ( SFAS ) 5, Accounting for Contingencies , which requires that losses be accrued when they are probable of occurring and are estimable and (b) SFAS No. 114, Accounting by Creditors for Impairment of a Loan , which requires that losses be accrued when it is probable that the Company will not collect all principal and interest payments according to the contractual terms of the loan. The loss, if any, can be determined by the difference between the loan balance and the value of collateral, the present value of expected future cash flows, or values observable in the secondary markets.

Three components comprise our allowance for credit losses: a specific allowance, a formula allowance and a nonspecific or environmental factors allowance. Each component is determined based on estimates that can and do change when actual events occur.

The specific allowance allocates an allowance to identified loans. A loan for which reserves are individually allocated may show deficiencies in the borrower's overall financial condition, payment record, support available from financial guarantors and or the fair market value of collateral. When a loan is identified as impaired, a specific reserve is established based on the Company's assessment of the loss that may be associated with the individual loan.

The formula allowance is used to estimate the loss on internally risk rated loans, exclusive of those identified as requiring specific reserves. Loans identified in the risk rating evaluation as substandard, doubtful and loss, (classified loans) are segregated from non-classified loans. Classified loans are assigned allowance factors based on an impairment analysis. Allowance factors relate to the level of the internal risk rating with loans exhibiting higher risk ratings receiving a higher allowance factor.

The unallocated formula allowance is used to estimate the loss associated with non-classified loans. These unclassified loans are also stratified by loan type and risk rating, and allowance factors are assigned by management based upon a number of factors, including delinquencies, loss history, changes in lending policy and procedures, changes in business and economic conditions, changes in the nature and volume of the portfolio, management expertise, concentrations within the portfolio, quality of loan review systems, competition, and legal and regulatory requirements. The factors assigned differ by loan type and internal risk rating. The unallocated allowance captures losses inherent in the portfolio which have not yet been recognized. Allowance factors and the overall size of the allowance may change from period to period based upon management's assessment of the above described factors and the relative weights given to each factor.

Management has significant discretion in making the judgments inherent in the determination of the provision and allowance for credit losses, including, in connection with the valuation of collateral, a borrower's prospects of repayment, and in establishing allowance factors on the formula allowance and nonspecific or environmental allowance components of the allowance. The establishment of allowance factors is a continuing evaluation, based on management's ongoing assessment of the global factors discussed above and their impact on the portfolio. The allowance factors may change from period to period, resulting in an increase or decrease in the amount of the provision or allowance, based upon the same volume and classification of loans. Changes in allowance factors have a direct impact on the amount of the provision, and a related after tax effect on net income. Errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs. Alternatively, errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance being in excess of amounts necessary to cover losses in the portfolio, and may result in lower provision in the future. For additional information regarding the allowance for credit losses, refer to the discussion under the caption Allowance for Credit Losses below.

## Edgar Filing: EAGLE BANCORP INC - Form 10-Q

Beginning in January 2006, the Company adopted the provisions of SFAS No. 123R, which requires the expense recognition for the fair value of share based compensation awards, such as stock options, restricted stock units, performance based shares and the like. This standard allows management to establish modeling assumptions as to expected stock price volatility, option terms, forfeiture rates and dividend rates which directly impact estimated fair value. The accounting standard also allows for the use of alternative option pricing models which may impact fair value

as determined. The Company's practice is to utilize reasonable and supportable assumptions which are reviewed with the appropriate Board Committee.

## RESULTS OF OPERATIONS

### Summary

The Company reported net income of \$1.7 million for the three months ended March 31, 2008, and March 31, 2007. Income per basic and diluted share was \$0.17 for the three month period ended March 31, 2008, as compared to \$0.18 per basic and \$0.17 per diluted share for the same period in 2007.

The Company had an annualized return on average assets of 0.77% and an annualized return on average equity of 7.98% for the first three months of 2008, as compared to returns on average assets and average equity of 0.88% and 9.23%, respectively, for the same three months of 2007.

For the three months ended March 31, 2008, net interest income showed an increase of 8% as compared to the same period in 2007 on growth in average earning assets of 13%. For the three months ended March 31, 2008 as compared to the same period in 2007, the Company experienced a decline in its net interest margin from 4.41% to 4.19% or 22 basis points. This change was primarily due to an inability to reprice assets as quickly as liabilities in a downward rate environment and the reliance on more expensive sources of funds which has increased interest expense at a faster rate than increases in interest income.

For both the three months ended March 31, 2008 and 2007, average interest bearing liabilities funding average earning assets was 77%. Additionally, while the average rate on earning assets for the three months ended March 31, 2008, as compared to 2007 has declined by 77 basis points from 7.60% to 6.83%, the cost of interest bearing liabilities has decreased by 74 basis points from 4.17% to 3.43%, resulting in a slight decline in the net interest spread of 3 basis points from 3.43% for the three months ended March 31, 2007 to 3.40% for the three months ended March 31, 2008. The net interest margin decreased 22 basis points from 4.41% for the three months ended March 31, 2007 to 4.19% for the three months ended March 31, 2008, a higher decline than the net interest spread as the benefit of average noninterest sources funding earning assets declined from 98 basis points for the three months ended March 31, 2007 to 79 basis points for the three months ended March 31, 2008. This decline was due to the lower level of interest rates in the quarter ended March 31, 2008 as compared to 2007.

Due to the need to meet loan funding objectives in excess of deposit growth, the bank has relied to a larger extent on alternative funding sources, such as FHLB Advances and brokered deposits which costs have contributed to narrowing of the net interest spread. If significant reliance on alternative funding sources continues, the Company's earnings could be adversely impacted.

Loans, which generally have higher yields than securities and other earning assets, increased from 87% of average earning assets in the first three months of 2007 to 89% of average earning assets for the same period of 2008. Investment securities for the first three months of 2008 amounted to 10% of average earning assets, a decline of 2% from an average of 12% for the same period in 2007. Federal funds sold averaged 0.7% in the first three months of 2008 versus 0.2% of average earning assets for the same period of 2007.

The provision for credit losses was \$720 thousand for the first three months of 2008 as compared to \$303 thousand for the same period in 2007. The higher provisioning in the first three months of 2008 as compared to 2007 is primarily attributable to substantial loan growth in the first quarter of 2008 and in lesser part to changes in the portfolio mix and increases in nonperforming and problem loans.

In total, the ratio of net charge-offs to average loans was .01% for the first three months of 2008 as compared to .26% for the first three months of 2007. The continued management of a quality loan portfolio remains a key objective of the Company.

Total noninterest income was \$940 thousand for the first three months of 2008 as compared to \$998 thousand for the same period in 2007, a 6% decrease. This decline was primarily due to a lower volume and pricing of SBA loan sales activity, which activity is subject to significant quarterly variances.

Total noninterest expenses increased from \$6.0 million in the first three months of 2007 to \$6.2 million for the first three months of 2008, an increase of 3%. The primary reasons for this increase were increases in staff levels and related personnel costs, merit increases and benefit costs over the past twelve months and higher internet and license agreements costs. The efficiency ratio for the three months ended March 31, 2008 improved to 65.07% as compared to 67.44% for the same period in 2007.

For the three months ended March 31, 2008 as compared to 2007, the increase in net interest income from increased volumes, offset by the combination of a higher provision for credit losses, lower levels of noninterest income, lower net interest margin and higher levels of noninterest expenses, resulted in stable net income during the three month period.

The ratio of average equity to average assets increased from 9.59% for the first three months of 2007 to 9.67% for the first three months of 2008. As discussed below, the capital ratios of the Bank and Company remain above well capitalized levels.

#### Net Interest Income and Net Interest Margin

Net interest income is the difference between interest income on earning assets and the cost of funds supporting those assets. Earning assets are composed primarily of loans and investment securities. The cost of funds represents interest expense on deposits, customer repurchase agreements and other borrowings. Noninterest bearing deposits and capital are other components representing funding sources (refer to discussion above under Results of Operations). Changes in the volume and mix of assets and funding sources, along with the changes in yields earned and rates paid, determine changes in net interest income. Net interest income for the first three months of 2008 was \$8.6 million compared to \$8.0 million for the first three months of 2007, an 8% increase.

The table below labeled *Average Balances, Interest Yields and Rates and Net Interest Margin* presents the average balances and rates of the various categories of the Company's assets and liabilities for the three months ended 2008 and 2007. Included in the table is a measurement of interest rate spread and margin. Interest spread is the difference (expressed as a percentage) between the interest rate earned on earning assets less the interest expense on interest bearing liabilities. While net interest spread provides a quick comparison of earnings rates versus cost of funds, management believes that margin provides a better measurement of performance. Margin includes the effect of noninterest bearing sources in its calculation and is net interest income expressed as a percentage of average earning assets.

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

Average Balances, Interest Yields And Rates, And Net Interest Margin

(dollars in thousands)

	Three Months Ended March 31,					
	2008		Average	Average	2007	
	Average	Interest	Yield/Rate	Balance	Interest	Average
	Balance					Yield/Rate
<b>ASSETS:</b>						
Interest earning assets:						
Interest bearing deposits with						
other banks and other						
short-term investments	\$ 4,093	\$ 43	4.23%	\$ 4,377	\$ 61	5.65%
Loans (1) (2) (3)	731,501	12,880	7.08%	636,225	12,531	7.99%
Investment securities						
available for sale (3)	84,029	1,052	5.04%	90,115	1,120	5.04%
Federal funds sold	5,840	39	2.69%	1,812	24	5.37%
Total interest earning assets	825,463	14,014	6.83%	732,529	13,736	7.60%
Total noninterest earning						
assets	42,709			45,814		
Less: allowance for credit						
losses	8,142			7,463		
Total noninterest earning						
assets	34,567			38,351		
TOTAL ASSETS	\$ 860,030			\$ 770,880		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Interest bearing liabilities:						
Interest bearing transaction	\$ 44,143	\$ 65	0.59%	\$ 55,344	\$ 66	0.48%
Savings and money market	185,589	1,067	2.31%	165,606	1,518	3.72%
Time deposits	288,965	3,296	4.59%	263,293	3,251	5.01%
Customer repurchase						
agreements and federal funds						
purchased	55,014	394	2.88%	46,577	525	4.57%
Other short-term borrowings	22,000	190	3.47%	8,000	108	5.48%
Long-term borrowings	39,670	402	4.08%	22,000	299	5.51%
Total interest bearing						
liabilities	635,381	5,414	3.43%	560,820	5,767	4.17%
Noninterest bearing						
liabilities:						
Noninterest bearing demand	136,409			132,249		
Other liabilities	5,040			3,921		
Total noninterest bearing						
liabilities	141,449			136,170		
Stockholders equity	83,200			73,890		
TOTAL LIABILITIES AND						
STOCKHOLDERS EQUITY	\$ 860,030			\$ 770,880		
Net interest income		\$ 8,600			\$ 7,969	
Net interest spread			3.40%			3.43%
Net interest margin			4.19%			4.41%

- 
- (1) Includes Loans held for sale
  - (2) Loans placed on nonaccrual status are included in average balances. Net loan fees and late charges included in interest income on loans totaled \$297 thousand and \$309 thousand for the three months ended March 31, 2008 and 2007, respectively.
  - (3) Interest and fees on loans and investments exclude tax equivalent adjustments.

#### Provision for Credit Losses

The provision for credit losses represents the amount of expense charged to current earnings to fund the allowance for credit losses. The amount of the allowance for credit losses is based on many factors which reflect management's assessment of the risk in the loan portfolio. Those factors include economic conditions and trends, the value and adequacy of collateral, volume and mix of the portfolio, performance of the portfolio, and internal loan processes of the Company and Bank.

Management has developed a comprehensive analytical process to monitor the adequacy of the allowance for credit losses. This process and guidelines were developed utilizing among other factors, the guidance from federal banking regulatory agencies. The results of this process, in combination with conclusions of the Bank's outside loan review consultant, support management's assessment as to the adequacy of the allowance at the balance sheet date. Please refer to the discussion under the caption "Critical Accounting Policies" for an overview of the methodology management employs on a quarterly basis to assess the adequacy of the allowance and the provisions charged to expense. Also, refer to the following table which reflects the comparative charge-offs and recoveries of prior loan charge-offs information.

During the first three months of 2008, a provision for credit losses was made in the amount of \$720 thousand and the allowance for credit losses increased \$696 thousand, including the impact of \$24 thousand in net charge-offs during the period. The provision for credit losses of \$720 thousand in the first three months of 2008 compared to a provision for credit losses of \$303 thousand in the first three months of 2007. The higher provisioning in the first three months of 2008 as compared to the same period in 2007 is primarily attributable to loan growth and in lesser part to changes in the portfolio mix and increases in non-performing and problem loans.

At March 31, 2008, the Company had \$11.7 million of loans classified as nonperforming, as compared to \$5.3 million at December 31, 2007, and \$1.6 million at March 31, 2007. The increase in non-performing loans at March 31, 2008 as compared to December 31, 2007 relates primarily to two commercial loan relationships which include commercial real estate loans secured by residential properties which have experienced cost overruns and/or delays in the development and construction processes. Management believes that the Company is adequately reserved for these non-performing real estate secured loans. The Company had no restructured loans at March 31, 2008, December 31, 2007 or March 31, 2007. Significant variation in these amounts may occur from period to period because the amount of nonperforming loans depends largely on the condition of a small number of individual credits and borrowers relative to the total loan portfolio. The Company had no Other Real Estate Owned (OREO) at March 31, 2008, December 31, 2007 or March 31, 2007. The balance of impaired loans was \$11.7 million with specific reserves against those loans of \$580 thousand at March 31, 2008, compared to \$1.9 million of impaired loans at December 31, 2007 with specific reserves of \$678 thousand and \$1.6 million of impaired loans at March 31, 2007 with specific reserves of \$428 thousand. The allowance for loan losses represented 1.15% of total loans at March 31, 2008 as compared to 1.12% at December 31, 2007, and 1.14% at March 31, 2007.

As part of its comprehensive loan review process, the Company's Board of Directors and the Bank Director's Loan Committee and or Board of Director's Credit Review Committees carefully evaluate loans which are past-due 30 days or more. The Committee(s) make a thorough assessment of the conditions and circumstances surrounding each delinquent loan. The Bank's loan policy requires that loans be placed on nonaccrual if they are ninety days past-due, unless they are well secured and in the process of collection.



Edgar Filing: EAGLE BANCORP INC - Form 10-Q

The maintenance of a high quality loan portfolio, with an adequate allowance for possible loan losses, will continue to be a primary management objective for the Company.

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

The following table sets forth activity in the allowance for credit losses for the periods indicated.

(dollars in thousands)	Three Months Ended			
	2008		March 31, 2007	
Balance at beginning of year	\$	8,037	\$	7,373
Charge-offs:				
Commercial				396
Real estate commercial				
Construction				
Home equity				
Other consumer		24		24
Total charge-offs		24		420
Recoveries:				
Commercial				7
Real estate commercial				
Construction				
Home equity				
Other consumer				
Total recoveries				7
Net charge-offs		(24)		(413)
Additions charged to operations		720		303
Balance at end of period	\$	8,733	\$	7,263
Annualized ratio of net charge-offs during the period to average loans outstanding during the period				
		0.01%		0.26%

The following table reflects the allocation of the allowance for credit losses at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future losses or charge-offs and does not restrict the use of the allowance to absorb losses in any category.

(dollars in thousands)	As of March 31, 2008		As of December 31, 2007	
	Amount	% (1)	Amount	% (1)
Commercial	\$ 3,500	20%	\$ 3,300	21%
Real estate commercial	3,089	51%	3,053	55%
Real estate residential	23	0%	21	0%
Construction - commercial and residential	1,736	20%	1,314	15%
Home equity	234	8%	233	8%
Other consumer	151	1%	116	1%
Unallocated		0%		0%
Total loans	\$ 8,733	100%	\$ 8,037	100%

(1) Represents the percent of loans in each category to total loans.

## Nonperforming Assets

The Company's nonperforming assets, which are comprised of loans delinquent 90 days or more, non-accrual loans, restructured loans and other real estate owned, totaled \$11.7 million at March 31, 2008 compared to \$1.6 million at March 31, 2007. The percentage of nonperforming loans to total loans was 1.54% at March 31, 2008 compared to 0.74% at December 31, 2007 and 0.25% at March 31, 2007. The increase in non-performing loans at March 31, 2008 as compared to December 31, 2007 relates primarily to two commercial loan relationships which include commercial real estate loans secured by residential properties which have experienced cost overruns and/or delays in the development and construction processes. Management believes that the Company is adequately reserved for these non-performing real estate secured loans.

The following table shows the amounts of nonperforming assets at the dates indicated.

(dollars in thousands)	2008	March 31, 2007	December 31, 2007
Nonaccrual Loans			
Commercial	\$ 1,314	\$ 1,601	\$ 1,174
Other consumer			
Home equity	123		123
Construction - commercial and residential	9,645		3,386
Real estate - commercial	629		641
Accrual loans-past due 90 days			
Commercial			
Other Consumer			
Real estate - commercial			
Restructured loans			
Real estate owned			
Total non-performing assets	\$ 11,711	\$ 1,601	\$ 5,324

At March 31, 2008, there were an additional \$237 thousand of performing loans considered potential problem loans, defined as loans which are not included in the past-due, nonaccrual or restructured categories, but for which known information about possible credit problems causes management to be uncertain as to the ability of the borrowers to comply with the present loan repayment terms which may in the future result in disclosures in the past- due, nonaccrual or restructured loan categories.

## Noninterest Income

Total noninterest income includes service charges on deposits, gain on sale of loans, gain on investment securities, income from bank owned life insurance ( BOLI ) and other income.

Total noninterest income for the three months ended March 31, 2008 was \$940 thousand compared to \$998 thousand for the same three month period in 2007, a 6% decrease. This decline was due primarily to a lower volume of SBA loan sales activity, which activity is subject to significant quarterly variances.

## Edgar Filing: EAGLE BANCORP INC - Form 10-Q

For the three months ended March 31, 2008 service charges on deposit accounts increased to \$429 thousand from \$349 thousand for the same three month period ended March 31, 2007, an increase of 23%. The increase in service charges on deposit accounts for the three month period was primarily related to new relationships and to the effect of lower market interest rate credits on analyzed accounts.

Gain on sale of loans consists of SBA and residential mortgage loans. For the three months ended March 31, 2008 gain on sale of loans decreased from \$237 thousand to \$127 thousand compared to the same three month period in 2007 or a decrease of 46%. For the three months ended March 31, 2008 the gain on sale of SBA loans

decreased to \$37 thousand compared to \$148 thousand for the same three month period in 2007. Activity in SBA loan sales to secondary markets can vary widely from quarter to quarter. EagleBank has been recognized as the leading community bank SBA lender in its marketplace. The Company originates residential mortgage loans on a pre-sold basis, servicing released. Sales of these residential mortgage loans yielded gains of \$90 thousand in the first three months of 2008 compared to \$89 thousand in the same three month period in 2007. The Company continues its efforts to expand residential mortgage lending and associated sale of these assets on a servicing released basis. Loans sold are subject to repurchase in circumstances where documentation is not accurate or the underlying loan becomes delinquent within a specified period following sale and loan funding. The Bank considers these potential recourse provisions to be minimal and to date have experienced no repurchases.

Other income totaled \$258 thousand, for the first three months of 2008 as compared to \$298 thousand for the same three month period in 2007, a decrease of 13%. The major components of income in this category consist of SBA service fees, noninterest loan fees and other noninterest fee income. Noninterest loan fees increased to \$155 thousand for the three months ended March 31, 2008 from \$146 thousand for the same three month period in 2007, an increase of 6%. Other noninterest fee income was \$53 thousand for the three months ended March 31, 2008 compared to \$94 thousand for the same three month period in 2007, a 43% decrease due primarily to declines in fees on settlement services.

Income from BOLI totaled \$116 thousand for the first three months of 2008 as compared to \$107 thousand for the same three month period in 2007.

For the three months ended March 31, 2008 and 2007, investment gains amounted to \$10 and \$7 thousand, respectively. Sales in 2008 were made to mitigate call risk on certain US Agency securities.

#### Noninterest Expense

Noninterest expense consists of salaries and employee benefits, premises and equipment expenses, marketing and advertising, outside data processing, legal, accounting and professional fees and other expenses.

Total noninterest expense was \$6.2 million for the three months ended March 31, 2008 compared to \$6.0 million for the three months ended March 31, 2007, an increase of 3%.

Salaries and employee benefits were \$3.6 million for the first three months of 2008, as compared to \$3.4 million for the same three month period in 2007, a 9% increase. This increase was due to staff additions and related personnel costs, merit increases, incentive based compensation and increased benefit costs. At March 31, 2008, the Company's staff numbered 174, as compared to 168 at March 31, 2007.

Premises and equipment expenses amounted to \$1.1 million for the three months ended March 31, 2008 versus \$1.2 million for the same three month period in 2007. This decrease of 11% was due primarily to the sublease of certain facilities in the second quarter of 2007 and a \$69 thousand reduction in the expense associated with equipment repairs and maintenance. For the three months ended March 31, 2008 the Company recognized \$72 thousand of sublease revenue as compared to \$-0- for the same three month period in 2007. The increase in sublease revenue and cost savings reduction in repairs and maintenance more than offset the minimal increase in other ongoing operating expenses associated with the Company's facilities, all of which are leased.

Marketing and advertising costs decreased from \$91 thousand for the three months ended March 31, 2007 to \$81 thousand for the same three month period in 2008, a decrease of 11%. This decline was due primarily to shifting certain design work in-house, the absence of time deposit advertising, and a significant reduction in sponsorships.

Legal, accounting and professional fees were \$170 thousand for the three months ended March 31, 2008, as compared to \$144 thousand for the same three month period in 2007, an 18% increase. This increase is primarily due to increased efforts on collection of nonperforming assets. The costs related to the pending acquisition of Fidelity & Trust, which will be capitalized as of the consummation of the transaction, are not included in these expense totals.

Other expenses, decreased to \$1.2 million in the three months ended March 31, 2008 from \$1.3 million for the same three month period in 2007, or a decrease of 1%. The major components of costs in this category include internet license agreements, outside data processing, insurance expenses, ATM expenses, broker fees, telephone, courier, correspondent bank fees, office supplies and printing, record management and storage costs, director fees and FDIC insurance premiums. For the three months ended March 31, 2008, as compared to the same three month period in 2007, the significant decreases in this category were primarily outside data processing, courier fees, postage and training and seminar costs.

#### Income Tax Expense

The Company's ratio of income tax expense to pre-tax income (termed effective tax rate) increased to 36.8% for the three months ended March 31, 2008 as compared to 35.7% for the same three month period in 2007. This increase was due primarily to lower amounts of U.S. government agency income in the three months ended March 31, 2008 as compared to the same three month period in 2007, which is non-taxable for state tax purposes, a higher state corporate income tax rate and to lower amounts of share based compensation in 2008 as compared to 2007 which is partially non-deductible for financial accounting purposes.

### FINANCIAL CONDITION

#### Summary

At March 31, 2008, assets were \$899.5 million, loans were \$759.5 million, deposits were \$685.7 million, customer repurchase agreements and other borrowings were \$123.7 million and stockholders' equity was \$83.5 million. As compared to December 31, 2007, assets grew by \$53.1 million (6.3%), loans by \$42.9 million (6.0%), deposits increased by \$54.8 million (8.7%), customer repurchase agreements and other borrowings decreased by \$4.7 million (3.6%) and stockholders' equity grew by \$2.4 million (2.9%).

The Company paid a dividend of \$0.06 per share for the first quarter of 2008 and 2007.

#### Loans

Loans, net of amortized deferred fees and costs, at March 31, 2008, December 31, 2007 and March 31, 2007 by major category are summarized below:

(dollars in thousands)	As of March 31, 2008		As of December 31, 2007		As of March 31, 2007	
	Amount	%	Amount	%	Amount	%
Commercial	\$ 154,761	20%	\$ 149,332	21%	\$ 135,181	21%
Real estate mortgage commercial (1)	385,119	51%	392,757	55%	353,109	55%
Real estate mortgage residential	2,026	0%	2,160	0%	1,509	0%
	153,675	20%	110,115	15%	94,439	15%

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

Construction - commercial and residential (1)

Home equity	57,793	8%	57,515	8%	48,935	8%
Other consumer	6,173	1%	4,798	1%	4,183	1%
Total loans	759,547	100%	\$ 716,677	100%	637,356	100%
Less: Allowance for Credit Losses	(8,733)		(8,037)		(7,263)	
Net Loans and Leases	\$ 750,814		\$ 708,640		\$ 630,093	

---

(1) Includes loans from land acquisition and development.



## Deposits and Other Borrowings

The principal sources of funds for the Bank are core deposits, consisting of demand deposits, NOW accounts, money market accounts, savings accounts and certificates of deposits from the local market areas surrounding the Bank's offices. The deposit base includes transaction accounts, time and savings accounts and accounts which customers use for cash management and which provide the Bank with a source of fee income and cross-marketing opportunities, as well as an attractive source of lower cost funds.

For the three months ending March 31, 2008, noninterest bearing deposits increased \$1.0 million as compared to December 31, 2007, while interest bearing deposits increased by \$53.8 million during the same three month period, primarily due to growth in certificates of deposits.

Approximately 44% of the Bank's deposits at March 31, 2008 are made up of time deposits, which are generally the most expensive form of deposit because of their fixed rate and term. Certificates of deposit in denominations of \$100 thousand or more can be more volatile and more expensive than certificates of less than \$100 thousand. However, because the Bank focuses on relationship banking, and given the demographics of the Company's marketplace, its historical experience has been that large certificates of deposit have not been more volatile or significantly more expensive than smaller denomination certificates. It has been the practice of the Bank to pay posted rates on its certificates of deposit whether under or over \$100 thousand, although some exceptions have been made for large deposit transactions. When appropriate in order to fund strong loan demand, the Bank accepts certificates of deposits, generally in denominations of less than \$100 thousand from bank and credit union subscribers to a wholesale deposit rate line and to brokered deposits obtained from qualified investment firms. These deposits amounted to approximately \$38.5 million or 6% of total deposits at March 31, 2008, as compared to approximately \$10.2 million or 2% of total deposits at December 31, 2007. The Bank has found rates on these deposits to be generally competitive with rates in our market given the speed and minimal noninterest cost at which these deposits can be acquired.

At March 31, 2008, the Company had approximately \$143.5 million in noninterest bearing demand deposits, representing 21% of total deposits. This compared to approximately \$142.5 million of these deposits at December 31, 2007. These deposits are primarily business checking accounts on which the payment of interest is prohibited by regulations of the Federal Reserve. Proposed legislation has been introduced in each of the last several sessions of Congress which would permit banks to pay interest on checking and demand deposit accounts established by businesses. If legislation effectively permitting the payment of interest on business demand deposits is enacted, of which there can be no assurance, it is likely that we may be required to pay interest on some portion of our noninterest bearing deposits in order to compete with other banks. Payment of interest on these deposits could have a significant negative impact on our net interest income and net interest margin, net income, and the return on assets and equity.

As an enhancement to the basic noninterest bearing demand deposit account, the Company offers a sweep account, or customer repurchase agreement, allowing qualifying businesses to earn interest on short term excess funds which are not suited for either a CD investment or a money market account. The balances in these accounts were \$61.7 million at March 31, 2008 compared to \$52.9 million at December 31, 2007. Customer repurchase agreements are not deposits and are not insured but are collateralized by U.S. government agency securities. These accounts are particularly suitable to businesses with significant fluctuation in the levels of cash flows. Attorney and title company escrow accounts are an example of accounts which can benefit from this product, as are customers who may require collateral for deposits in excess of \$100 thousand but do not qualify for other pledging arrangements. This program requires the Company to maintain a sufficient investment securities level to accommodate the fluctuations in balances which may occur in these accounts.

At March 31, 2008, the Company had no outstanding balances under its lines of credit provided by correspondent banks, as compared to \$23.5 million at December 31, 2007. The Bank had \$62.0 million of FHLB borrowings outstanding at March 31, 2008 and \$52.0 million outstanding at December 31, 2007. These advances are secured by a blanket lien on qualifying loans in the Bank's commercial mortgage and home equity loan portfolios.



## Liquidity Management

Liquidity is a measure of the Bank's ability to meet loan demand and to satisfy depositor withdrawal requirements in an orderly manner. The Bank's primary sources of liquidity consist of cash and cash balances due from correspondent banks, loan repayments, federal funds sold and other short-term investments, maturities and sales of investment securities and income from operations. The Bank's entire investment securities portfolio is in an available-for-sale status which allows it flexibility to generate cash from sales as needed to meet ongoing loan demand. These sources of liquidity are primary and are supplemented by the ability of the Company and Bank to borrow funds, which are termed secondary sources. The Company maintains secondary sources of liquidity, which includes a \$15 million line of credit with a correspondent bank, secured by the stock of the Bank, against which there were no amounts outstanding at March 31, 2008. Additionally, the Bank can purchase up to \$76.5 million in federal funds on an unsecured basis and \$5.5 million on a secured basis from its correspondents, against which there were no borrowings outstanding at March 31, 2008. At March 31, 2008, the Bank was also eligible to take advances from the FHLB up to \$98.5 million based on collateral at the FHLB, of which it had \$62.0 million of advances outstanding. Also, the Bank may enter into repurchase agreements as well as obtaining additional borrowing capabilities from the FHLB provided adequate collateral exists to secure these lending relationships.

The loss of deposits, through disintermediation, is one of the greater risks to liquidity. Disintermediation occurs most commonly when rates rise and depositors withdraw deposits seeking higher rates in alternative savings and investment sources than banks may offer. The Bank was founded under a philosophy of relationship banking and, therefore, believes that it has less of an exposure to disintermediation and resultant liquidity concerns than do many banks. There is, however, a risk that some deposits would be lost if rates were to increase and the Bank elected not to remain competitive with its deposit rates. Under those conditions, the Bank believes that it is well positioned to use other sources of funds such as FHLB borrowings, customer repurchase agreements and Bank lines of credit to offset a decline in deposits in the short run. Over the long-term, an adjustment in assets and change in business emphasis could compensate for a potential loss of deposits. The Bank also maintains a marketable investment portfolio to provide flexibility in the event of significant liquidity needs. The Bank Board's Asset Liability Committee has adopted policy guidelines which emphasize the importance of core deposits and their continued growth.

At March 31, 2008, under the Bank's liquidity formula, it had \$224.0 million of primary and secondary liquidity sources, which was deemed adequate to meet current and projected funding needs.

## Commitments and Contractual Obligations

The following is a schedule of significant funding commitments at March 31, 2008:

	(in thousands)	
Unused lines of credit (consumer)	\$	52,611
Other commitments to extend credit		222,795
Standby letters of credit		9,203
Total	\$	284,609

## Asset/Liability Management and Quantitative and Qualitative Disclosure about Market Risk

## Edgar Filing: EAGLE BANCORP INC - Form 10-Q

A fundamental risk in banking is exposure to market risk, or interest rate risk, since a bank's net income is largely dependent on net interest income. The Bank's Asset Liability Committee (ALCO) of the Board of Directors formulates and monitors the management of interest rate risk through policies and guidelines established by it and the full Board of Directors. In its consideration of risk limits, the ALCO considers the impact on earnings and capital, the level and direction of interest rates, liquidity, local economic conditions, outside threats and other factors. Banking is generally a business of managing the maturity and re-pricing mismatch inherent in its asset and liability cash flows and to provide net interest income growth consistent with the Company's profit objectives.

## Edgar Filing: EAGLE BANCORP INC - Form 10-Q

The Company, through its ALCO, monitors the interest rate environment in which it operates and adjusts the rates and maturities of its assets and liabilities to remain competitive and to achieve its overall financial objectives subject to established risk limits. In the current interest rate environment, the Company has been extending the duration of its investment portfolios and acquiring more variable and short-term liabilities, so as to mitigate the risk to earnings and capital should interest rates decline from current levels. There can be no assurance that the Company will be able to successfully achieve its optimal asset liability mix, as a result of competitive pressures, customer preferences and the inability to perfectly forecast future interest rates.

One of the tools used by the Company to manage its interest rate risk is a static GAP analysis presented below. The Company also uses an earnings simulation model (simulation analysis) on a quarterly basis to monitor its interest rate sensitivity and risk and to model its balance sheet cash flows and its income statement effects in different interest rate scenarios. The model utilizes current balance sheet data and attributes and is adjusted for assumptions as to investment maturities (calls), loan prepayments, interest rates, the level of noninterest income and noninterest expense. The data is then subjected to a shock test which assumes a simultaneous change in interest rate up 100 and 200 basis points or down 100 and 200 basis points, along the entire yield curve, but not below zero. The results are analyzed as to the impact on net interest income, and net income over the next twelve and twenty four month periods and to the market value of equity impact.

For the analysis presented below, at March 31, 2008, the bank modified an assumption for the re-pricing of money market deposit accounts to reflect a change of 50 basis points in money market interest rates for each 100 basis points in market interest rates in both a decreasing and increasing interest rate shock scenario. This assumption change was based on the bank's demand for funds and its recent experience with market interest rates. Analysis prior to September 30, 2007 assumed that money market rates were changed 100 basis points for each 100 basis points movement in general interest rates.

As quantified in the table below, the Company's analysis at March 31, 2008 shows a moderate effect on net interest income, net income and the economic value of equity when interest rates are shocked down 100 and 200 basis points and up 100 and 200 basis points, due to the significant level of variable rate and repricable assets and liabilities. The re-pricing duration of the investment portfolio is about 2.5 years, the loan portfolio about 1.2 years; the interest bearing deposit portfolio about 1.6 years and the borrowed funds portfolio about 1.0 years.

The following table reflects the result of a shock simulation on the March 31, 2008 balances.

Change in interest rates (basis points)	Percentage change in net interest income	Percentage change in net income	Percentage change in Market Value of Portfolio Equity
+200	-3.7%	-9.4%	-8.8%
+100	-2.1%	-5.2%	-3.3%
0			
-100	+0.1%	+0.1%	-2.4%
-200	-5.1%	-12.8%	-5.8%

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or repricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that limit changes in interest rates on a short-term basis and over the life of the loan. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their debt may decrease in the event of a significant interest rate increase.

Market interest rates have declined significantly for the first quarter of 2008, which tends to create floors (given a shock of -200 basis points) on various deposit interest rate products, as interest rates cannot be reduced

below zero. This lower level of market interest rates at March 31, 2008 as compared to December 31, 2007 has resulted in an increase in net interest income and net income earnings at risk in a declining interest rate scenario.

The results of simulation at March 31, 2008 are within the policy limits adopted by the Company. For net interest income, the Company has adopted a policy risk limit of 15% negative change for a 100 basis point change in market interest rate shock and a policy risk limit of 20% negative change for a 200 basis point change in market interest rate shock. For the market value of equity, the Company has adopted a policy risk limit of 20% negative change for a 100 basis point change in market interest rates shock and a policy risk limit of 25% negative change for a 200 basis point change in market interest rates shock.

### Gap Position

Banks and other financial institutions earnings are significantly dependent upon net interest income, which is the difference between interest earned on earning assets and interest expense on interest bearing liabilities.

In falling interest rate environments, net interest income is maximized with longer term, higher yielding assets being funded by lower yielding short-term funds, or what is referred to as a negative mismatch or GAP. Conversely, in a rising interest rate environment, net interest income is maximized with shorter term, higher yielding assets being funded by longer-term liabilities or what is referred to as a positive mismatch or GAP.

Based on the current economic environment, management has generally been endeavoring to extend the duration of assets, to acquire more fixed and renegotiable rate loans, and has been emphasizing the acquisition of shorter-term time deposits. The Company has also been acquiring lower cost FHLB callable advances to better manage the net interest margin. This strategy has mitigated the Company's exposure to lower interest rates as measured at March 31, 2008. While management believes that this overall position creates a reasonable balance in managing its interest rate risk and maximizing its net interest margin within plan objectives, there can be no assurance as to actual results.

The GAP position, which is a measure of the difference in maturity and re-pricing volume between assets and liabilities, is a means of monitoring the sensitivity of a financial institution to changes in interest rates. The chart below provides an indication of the sensitivity of the Company to changes in interest rates. A negative GAP indicates the degree to which the volume of repricable liabilities exceeds repricable assets in given time periods. At March 31, 2008, the Company had a positive cumulative GAP position of approximately 9% of total assets out to three months and a negative cumulative GAP position of about 1% out to 12 months, as compared to a three month positive GAP of 2% and a negative cumulative GAP out to 12 months of 6% at December 31, 2007. The change in the GAP position at March 31, 2008 as compared to December 31, 2007 relates primarily to a change in the mix of loans toward more construction loans, whose interest rates generally are variable rate. The current position is within guideline limits established by ALCO.

If interest rates decline, the Company's net interest income and margin are expected to contract slightly because of the significantly lower market rates at March 31, 2008 as compared to December 31, 2007 and the inability to significantly lower deposit interest rates. Because competitive market behavior does not necessarily track the trend of interest rates but at times moves ahead of financial market influences, the change in the cost of liabilities may be different than anticipated by the GAP model. If this were to occur, the effects of a declining interest rate environment may not be in accordance with management's expectations. If interest rates move significantly up or down, the Company's interest rate sensitivity position at March 31, 2008 shows risk exposures within established policy limits established by ALCO. Management has carefully considered its strategy to maximize interest income by reviewing interest rate levels, economic indicators and call features within its investment portfolio. These factors have been discussed with the ALCO and management believes that current strategies are appropriate to current economic and interest rate trends.





**GAP Analysis**

**March 31, 2008**

(dollars in thousand)

Repriceable in:	0-3 mos	4-12 mos	13-36 mos	37-60 mos	over 60 mos	Total Rate Sensitive	Non-sensitive	Total Assets
<b><u>RATE SENSITIVE ASSETS:</u></b>								
Investments securities	\$ 9,583	\$ 13,776	\$ 43,023	\$ 5,503	\$ 11,047	\$ 82,932		
Loans (1)(2)	336,797	118,030	175,314	92,873	38,478	761,492		
Fed funds and other short-term investments	18,243					18,243		
Other earning assets		12,100				12,100		
<b>Total</b>	<b>\$ 364,623</b>	<b>\$ 143,906</b>	<b>\$ 218,337</b>	<b>\$ 98,376</b>	<b>\$ 49,525</b>	<b>\$ 874,767</b>	<b>\$ 24,700</b>	<b>\$ 899,467</b>
<b><u>RATE SENSITIVE LIABILITIES:</u></b>								
Noninterest bearing demand	\$ 4,287	\$ 13,629	\$ 36,344	\$ 36,343	\$ 52,905	\$ 143,508		
Interest bearing transaction	23,917		9,562	9,562	4,781	47,822		
Savings and money market	96,673		38,670	38,670	19,335	193,348		
Time deposits	69,910	220,478	7,037	3,012	625	301,062		
Customer repurchase agreements	61,727					61,727		
Other borrowings	22,000		20,000	20,000		62,000		
<b>Total</b>	<b>\$ 278,514</b>	<b>\$ 234,107</b>	<b>\$ 111,613</b>	<b>\$ 107,587</b>	<b>\$ 77,646</b>	<b>\$ 809,467</b>	<b>\$ 6,463</b>	<b>\$ 815,930</b>
<b>GAP</b>	<b>\$ 86,109</b>	<b>\$ (90,201)</b>	<b>\$ 106,724</b>	<b>\$ (9,211)</b>	<b>\$ (28,121)</b>	<b>\$ 65,300</b>		
<b>Cumulative GAP</b>	<b>\$ 86,109</b>	<b>\$ (4,092)</b>	<b>\$ 102,632</b>	<b>\$ 93,421</b>	<b>\$ 65,300</b>			
<b>Cumulative gap as percent of total assets</b>	<b>9.57%</b>	<b>(0.45)%</b>	<b>11.41%</b>	<b>10.39%</b>	<b>7.26%</b>			

(1) Includes loans held for sale

(2) Non-accrual loans are included in the over 60 months category

Although NOW and MMA accounts are subject to immediate repricing, the Bank's GAP model has incorporated a repricing schedule to account for a lag in rate changes based on our experience, as measured by the amount of those deposit rate changes relative to the amount of rate change in assets.

**Capital Resources and Adequacy**

The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, changing competitive conditions and economic forces, and the overall level of growth. The adequacy of the Company's current and future capital needs is monitored by management on an ongoing basis. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses.

## Edgar Filing: EAGLE BANCORP INC - Form 10-Q

The capital position of both the Company and the Bank continues to exceed regulatory requirements to be considered well-capitalized. The primary indicators used by bank regulators in measuring the capital position are the tier 1 risk-based capital ratio, the total risk-based capital ratio, and the tier 1 leverage ratio. Tier 1 capital consists of common and qualifying preferred stockholders' equity less intangibles. Total risk-based capital consists of tier 1 capital, qualifying subordinated debt, and a portion of the allowance for credit losses. Risk-based capital ratios are calculated with reference to risk-weighted assets. The tier 1 leverage ratio measures the ratio of tier 1 capital to total average assets for the most recent three month period.

The ability of the Company to continue to grow is dependent on its earnings and the ability to obtain additional funds for contribution to the Bank's capital, through additional borrowing, the sale of additional common stock, the sale of preferred stock, or through the issuance of additional qualifying equity equivalents, such as subordinated debt or trust preferred securities.

The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions which have (1) total reported loans for construction, land development, and other land acquisitions which represent in total 100% or more of an institutions total risk-based capital; or (2) total commercial real estate loans representing 300% or more of the institutions total risk-based capital and the institution's commercial real estate loan portfolio has increased 50% or more during the prior 36 months are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. The Company, like many community banks, has a concentration in commercial real estate loans. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened portfolio monitoring and reporting, and strong underwriting criteria with respect to its commercial real estate portfolio. The Company is well capitalized. Nevertheless, it is possible that we may be required to maintain higher levels of capital as a result of our commercial real estate concentration, which could require us to obtain additional capital, and may adversely affect shareholder returns.

Capital

The actual capital amounts and ratios for the Company and Bank as of March 31, 2008 and March 31, 2007 are presented in the table below:

(dollars in thousands)	Company		Bank		For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provision Ratio *
	Actual Amount	Ratio	Actual Amount	Ratio		
<b>As of March 31, 2008</b>						
Total capital to risk-weighted assets	\$ 90,880	10.95%	\$ 86,437	10.48%	8.0%	10.0%
Tier 1 capital to risk-weighted assets	82,147	9.90%	77,734	9.42%	4.0%	6.0%
Tier 1 capital to average assets (leverage)	82,147	9.55%	77,734	9.11%	3.0%	5.0%
<b>As of March 31, 2007</b>						
Total capital to risk-weighted assets	\$ 81,912	12.00%	\$ 73,830	11.00%	8.0%	10.0%
Tier 1 to risk-weighted assets	74,949	11.00%	66,599	9.90%	4.0%	6.0%
Tier 1 capital to average assets (leverage)	74,949	9.70%	66,599	8.70%	3.0%	5.0%

\* Applies to Bank only

Bank and holding company regulations, as well as Maryland law, impose certain restrictions on dividend payments by the Bank, as well as restricting extension of credit and transfers of assets between the Bank and the Company. At March 31, 2008, the Bank could pay dividends to the parent to the extent of its earnings so long as it maintained required capital ratios.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

Please refer to Item 2 of this report, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the caption Asset/Liability Management and Quantitative and Qualitative Disclosure about Market Risk.

Item 4. Controls and Procedures

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated as of the last day of the period covered by this report the effectiveness of the operation of the Company's disclosure controls and procedures, as defined in Rule 13a-14 under the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There were no changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

Item 1 - Legal Proceedings

From time to time the Company may become involved in legal proceedings. At the present time there are no proceedings which the Company believes will have an adverse impact on the financial condition or earnings of the Company.

Item 1A - Risk Factors

There have been no material changes as of March 31, 2008 in the risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

- |  |                |
|--|----------------|
| (a) <i>Sales of Unregistered Securities.</i> | None           |
| (b) <i>Use of Proceeds.</i>                  | Not Applicable |
| (c) <i>Issuer Purchases of Securities.</i>   | None           |

Item 3 - Defaults Upon Senior Securities None

Item 4 - Submission of Matters to a Vote of Security Holders None

Item 5 - Other Information None

Edgar Filing: EAGLE BANCORP INC - Form 10-Q

- |   |      |
|---|------|
| (a) <i>Required 8-K Disclosures</i>                       | None |
| (b) <i>Changes in Procedures for Director Nominations</i> | None |

Item 6 - Exhibits

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
2.1	Agreement and Plan of Merger, dated as of December 2, 2007 by and among Eagle Bancorp, Inc., Woodmont Holdings, Inc., Fidelity & Trust Financial Corporation and Fidelity & Trust Bank (1)
3.1	Certificate of Incorporation of the Company, as amended (2)

3.2	Bylaws of the Company (3)
10.1	1998 Stock Option Plan (4)
10.2	Employment Agreement between Michael Flynn and the Company(5)
10.3	Employment Agreement between Thomas D. Murphy and the Bank(5)
10.4	Employment Agreement between Ronald D. Paul and the Company(6)
10.5	Director s Fee Agreement between Leonard L. Abel and the Company(6)
10.6	Employment Agreement between Susan G. Riel and the Bank(5)
10.7	Employment Agreement between Martha Foulon-Tonat and the Bank(5)
10.8	Employment Agreement between James H. Langmead and the Bank(5)
10.9	Employee Stock Purchase Plan(7)
10.10	2006 Stock Plan(7)
11	Statement Regarding Computation of Per Share Earnings
21	Subsidiaries of the Registrant
31.1	Rule 13a-14(a) Certification of Ronald D. Paul
31.2	Rule 13a-14(a) Certification of James H. Langmead
31.3	Rule 13a-14(a) Certification of Susan G. Riel
31.4	Rule 13a-14(a) Certification of Michael T. Flynn
32.1	Section 1350 Certification of Ronald D. Paul
32.2	Section 1350 Certification of James H. Langmead
32.3	Section 1350 Certification of Susan G. Riel
32.4	Section 1350 Certification of Michael T. Flynn

- 
- (1) Incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed on December 3, 2007.
- (2) Incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form10-Q for the period ended September 30, 2002.
- (3) Incorporated by reference to Exhibit 3.2 to the Company s Current Report on Form 8-K filed on October 30, 2007.
- (4) Incorporated by reference to Exhibit 4 to the Company s Registration Statement on Form S-8 No. 333-78449.
- (5) Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2006.
- (6) Incorporated by reference to exhibit of the same number to the Company s Annual Report on Form 10-K for the year ended December 31, 2003.
- (7) Incorporated by reference to Exhibit 4 to the Company s Registration Statement on Form S-8 (No. 333-116352)
- (8) Incorporated by reference to Exhibit 4 to the Company s Registration Statement on Form S-8 (No. 333-135072)

**SIGNATURES**

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

**EAGLE BANCORP, INC.**

Date: May 12, 2008

By: /s/ Ronald D. Paul  
Ronald D. Paul, President and Chief Executive Officer

Date: May 12, 2008

By: /s/ James H. Langmead  
James H. Langmead, Senior Vice President and  
Chief Financial Officer