

SUSSEX BANCORP
Form 10-Q
November 15, 2010

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 September 30, 2010

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 0-29030

SUSSEX BANCORP
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of incorporation or organization)

22-3475473
(I.R.S. Employer Identification No.)

200 Munsonhurst Rd., Franklin, NJ
(Address of principal executive offices)

07416
(Zip Code)

(973) 827-2914
(Registrant's telephone number, including area code)

(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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting
o company x

(Do not check if a
smaller reporting
company)

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

Yes No

As of November 8, 2010 there were 3,352,346 shares of common stock, no par value, issued.

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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

SUSSEX BANCORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in thousands)	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks and interest bearing deposits with other banks	\$ 32,644	\$ 8,779
Federal funds sold	3,000	14,300
Cash and cash equivalents	35,644	23,079
Time deposits with other banks	600	100
Trading securities	-	2,955
Securities available for sale	85,677	71,315
Federal Home Loan Bank Stock, at cost	2,102	2,045
Loans receivable, net of unearned income	333,607	332,959
Less: allowance for loan losses	6,097	5,496
Net loans receivable	327,510	327,463
Foreclosed real estate, net of allowance for losses of \$140 in 2010 and \$893 in 2009	2,095	3,843
Premises and equipment, net	6,868	7,065
Accrued interest receivable	1,925	1,943
Goodwill	2,820	2,820
Bank-owned life insurance	10,069	3,360
Other assets	8,885	8,853
Total Assets	\$ 484,195	\$ 454,841
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 37,765	\$ 34,155
Interest bearing	360,972	337,920
Total Deposits	398,737	372,075
Borrowings	33,046	33,090
Accrued interest payable and other liabilities	2,566	2,262

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Junior subordinated debentures	12,887	12,887
Total Liabilities	447,236	420,314
Stockholders' Equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	-	-
Common stock, no par value, authorized 5,000,000 shares; issued shares 3,352,346 in 2010 and 3,259,786 in 2009; outstanding shares 3,250,355 in 2010 and 3,245,811 in 2009	27,852	27,805
Retained earnings	8,156	6,577
Accumulated other comprehensive income	951	145
Total Stockholders' Equity	36,959	34,527
Total Liabilities and Stockholders' Equity	\$ 484,195	\$ 454,841

See Notes to Unaudited Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Dollars In Thousands Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
INTEREST INCOME				
Loans receivable, including fees	\$ 4,765	\$ 4,923	\$ 14,194	\$ 14,520
Securities:				
Taxable	412	651	1,378	2,032
Tax-exempt	292	308	820	897
Federal funds sold	3	5	20	26
Interest bearing deposits	20	1	30	15
Total Interest Income	5,492	5,888	16,442	17,490
INTEREST EXPENSE				
Deposits	943	1,264	3,158	5,166
Borrowings	358	359	1,065	1,067
Junior subordinated debentures	62	64	170	251
Total Interest Expense	1,363	1,687	4,393	6,484
Net Interest Income	4,129	4,201	12,049	11,006
PROVISION FOR LOAN LOSSES	662	520	2,364	1,583
Net Interest Income after Provision for Loan Losses	3,467	3,681	9,685	9,423
OTHER INCOME				
Service fees on deposit accounts	375	380	1,049	1,095
ATM and debit card fees	128	126	370	354
Bank-owned life insurance	100	41	219	144
Insurance commissions and fees	485	548	1,622	1,757
Investment brokerage fees	24	30	133	111
Realized holding gains on trading securities	-	2	7	21
Gain (loss) on sale of securities, available for sale	(2)	55	52	55
Gain on sale of premises and equipment	2	-	2	203
Gain (loss) on sale of foreclosed real estate	12	(34)	17	(35)
Impairment write-downs on equity securities	-	-	(171)	-
Other	52	132	200	365
Total Other Income	1,176	1,280	3,500	4,070
OTHER EXPENSES				
Salaries and employee benefits	1,885	2,070	5,865	5,624
Occupancy, net	336	320	1,011	979
Furniture, equipment and data processing	325	314	919	991
Advertising and promotion	36	49	138	145

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Professional fees	130	168	398	416
Director fees	65	56	183	182
FDIC assessment	232	172	681	687
Insurance	56	54	167	140
Stationary and supplies	53	37	147	128
Loan collection costs	144	92	307	338
Write-down on foreclosed real estate	182	-	209	456
Expenses related to foreclosed real estate	82	36	222	195
Amortization of intangible assets	3	4	11	14
Other	315	341	960	968
Total Other Expenses	3,844	3,713	11,218	11,263
Income before Income Taxes	799	1,248	1,967	2,230
PROVISION FOR INCOME TAXES	168	351	388	485
Net Income	\$ 631	\$ 897	\$ 1,579	\$ 1,745
EARNINGS PER SHARE				
Basic	\$ 0.19	\$ 0.28	\$ 0.49	\$ 0.54
Diluted	\$ 0.19	\$ 0.28	\$ 0.48	\$ 0.54

See Notes to Unaudited Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2010 and 2009
(Unaudited)

(Dollars in thousands, except per share data)	Number of Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2008	3,248,417	\$ 27,783	\$ 4,665	\$ (538)	\$ -	\$ 31,910
Comprehensive income:						
Net income	-	-	1,745	-	-	1,745
Change in unrealized losses on securities available for sale, net of tax	-	-	-	1,121	-	1,121
Total Comprehensive Income						2,866
Treasury shares purchased	(7,500)	-	-	-	(30)	(30)
Treasury shares retired	-	(30)	-	-	30	-
Restricted stock vested during the period (a)	4,894	-	-	-	-	-
Compensation expense related to restricted stock grants	-	42	-	-	-	42
Dividends on common stock (\$0.03 per share)	-	-	(99)	-	-	(99)
Balance September 30, 2009	3,245,811	\$ 27,795	\$ 6,311	\$ 583	\$ -	\$ 34,689
Balance December 31, 2009	3,245,811	\$ 27,805	\$ 6,577	\$ 145	\$ -	\$ 34,527
Comprehensive income:						
Net income	-	-	1,579	-	-	1,579
Change in unrealized gain on						

securities available for sale, net of tax	-	-	-	806	-	806
Total Comprehensive Income						2,385
Restricted stock vested during the period (a)	4,544	-	-	-	-	-
Compensation expense related to restricted stock grants	-	47	-	-	-	47
Balance September 30, 2010	3,250,355	\$ 27,852	\$ 8,156	\$ 951	\$ -	\$ 36,959

(a) Balance of unvested shares of restricted stock: 101,991 in 2010 and 15,223 in 2009

See Notes to Unaudited Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Cash Flows from Operating Activities		
Net income	\$ 1,579	\$ 1,745
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,364	1,583
Provision for depreciation and amortization	510	609
Net change in trading securities	714	9,316
Net amortization of securities premiums and discounts	203	75
Net realized gain on sale of securities	(52)	(55)
Impairment charge on equity securities	171	-
Net realized gain on sale of premises and equipment	(2)	(203)
Net realized (gain) loss on sale of foreclosed real estate	(17)	35
Provision for foreclosed real estate	209	456
Earnings on investment in life insurance	(209)	(122)
Compensation expense for stock options and stock awards	47	42
(Increase) decrease in assets:		-
Accrued interest receivable	18	(5)
Other assets	(581)	(256)
Increase in accrued interest payable and other liabilities	304	146
Net Cash Provided by Operating Activities	5,258	13,366
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(33,784)	(38,074)
Proceeds from sale of securities	1,077	8,119
Maturities, calls and principal repayments	21,608	14,035
Net increase in loans	(3,347)	(13,310)
Net purchases of interest bearing time deposits	(500)	-
Purchases of premises and equipment	(302)	(142)
Proceeds from the sale of premises and equipment	2	1,089
Proceeds from the sale of foreclosed real estate	2,492	469
Purchases of bank-owned life insurance	(6,500)	-
Purchases of FHLB stock	(57)	(71)
Net Cash Used in Investing Activities	(19,311)	(27,885)
Cash Flows from Financing Activities		
Net increase in deposits	26,662	9,056

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Repayments of borrowings	(44)	(42)
Purchase of treasury stock	-	(30)
Dividends paid, net of reinvestments	-	(99)
Net Cash Provided by Financing Activities	26,618	8,885
Net Increase (Decrease) in Cash and Cash Equivalents	12,565	(5,634)
Cash and Cash Equivalents - Beginning	23,079	20,912
Cash and Cash Equivalents - Ending	\$ 35,644	\$ 15,278
Supplementary Cash Flows Information		
Interest paid	\$ 4,411	\$ 6,851
Income taxes paid	\$ 617	\$ 557
Supplementary Schedule of Noncash Investing and Financing Activities		
Foreclosed real estate acquired in settlement of loans	\$ 936	\$ 1,454
Trading securities transferred to available for sale securities	\$ 2,241	-

See Notes to Unaudited Consolidated Financial Statements

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SUSSEX BANCORP
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Sussex Bancorp (the "Company") and its wholly-owned subsidiary Sussex Bank (the "Bank"). The Bank's wholly-owned subsidiaries are SCB Investment Company, Inc., SCBNY Company, Inc., ClassicLake Enterprises, LLC, Wheatsworth Properties Corp., and Tri-State Insurance Agency, Inc. ("Tri-State"), a full service insurance agency located in Sussex County, New Jersey. Tri-State's operations are considered a separate segment for financial disclosure purposes. All inter-company transactions and balances have been eliminated in consolidation. Sussex Bank also has a 49% interest in SussexMortgage.com LLC, an Indiana limited liability company and mortgage banking joint venture with PNC Mortgage, Inc. The Bank operates ten banking offices, eight located in Sussex County, New Jersey and two in Orange County, New York. The Bank has also received regulatory approval for a branch location in Pike County, Pennsylvania.

The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "FRB"). The Bank's deposits are insured by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The operations of the Company and the Bank are subject to the supervision and regulation of the FRB, FDIC and the New Jersey Department of Banking and Insurance (the "Department") and the operations of Tri-State are subject to supervision and regulation by the Department.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three and nine-month periods ended September 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2010 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date these financial statements were issued.

Note 2 – Earnings per Share

Basic earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares (nonvested restricted stock grants and stock options) had been issued, as well as any adjustment to income that would result from the assumed issuance of potential common shares that may be issued by the Company. Potential common shares related to stock options are determined using the treasury stock method.

Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Per	Per

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	Income	Shares	Share	Income	Shares	Share
(Dollars in thousands, except per share data)	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
Basic earnings per share:						
Net income applicable to common stockholders	\$ 631	3,250	\$ 0.19	\$ 897	3,246	\$ 0.28
Effect of dilutive securities:						
Stock options	-	59		-	10	
Diluted earnings per share:						
Net income applicable to common stockholders and assumed conversions	\$ 631	3,309	\$ 0.19	\$ 897	3,256	\$ 0.28

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	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Income	Shares	Per Share	Income	Shares	Per Share
(Dollars in thousands, except per share data)	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
Basic earnings per share:						
Net income applicable to common stockholders	\$ 1,579	3,250	\$ 0.49	\$ 1,745	3,249	\$ 0.54
Effect of dilutive securities:						
Stock options	-	44		-	11	
Diluted earnings per share:						
Net income applicable to common stockholders and assumed conversions	\$ 1,579	3,294	\$ 0.48	\$ 1,745	3,260	\$ 0.54

Note 3 – Comprehensive Income

The components of other comprehensive income and related tax effects are as follows:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2010	2009	September 30, 2010	2009
Unrealized holding gain on available for sale securities	\$ 690	\$ 1,776	\$ 1,225	\$ 1,923
Reclassification adjustments for net gains (losses) and impairment write-downs included in net income	(2)	55	(119)	55
Net unrealized gain	692	1,721	1,344	1,868
Tax effect	(277)	(688)	(538)	(747)
Other comprehensive income, net of tax	\$ 415	\$ 1,033	\$ 806	\$ 1,121

Note 4 – Segment Information

The Company's insurance agency operations are managed separately from the traditional banking and related financial services that the Company also offers. The insurance agency operation provides commercial, individual, and group benefit plans and personal coverage.

(Dollars in thousands)	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Banking and Financial Services	Insurance Services	Total	Banking and Financial Services	Insurance Services	Total
Net interest income from external sources	\$ 4,129	\$ -	\$ 4,129	\$ 4,201	\$ -	\$ 4,201