

SURREY BANCORP
Form 10QSB
May 12, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2006

.. TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

COMMISSION FILE NO. 0000-50313

SURREY BANCORP

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

North Carolina
(State or other jurisdiction of
incorporation or organization)

145 North Renfro Street, Mount Airy, NC 27030

(Address of principal executive offices)

(336) 783-3900

59-3772016
(IRS Employer

Identification No.)

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(Issuer's telephone number)

Not Applicable

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

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date:

On May 5, 2006 there were 1,471,252 common shares issued and outstanding

Transitional Small Business Disclosure Format (Check One): Yes No

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Table of Contents**Consolidated Balance Sheets***March 31, 2006 (Unaudited) and December 31, 2005 (Audited)*

	March 2006	December 2005
Assets		
Cash and due from banks	\$ 1,687,939	\$ 1,789,131
Interest-bearing deposits with banks	16,126,531	20,515,582
Federal funds sold	405,000	504,000
Investment securities available for sale	3,128,133	4,129,223
Restricted equity securities	1,051,230	1,007,130
Loans, net of allowance for loan losses of \$2,365,716 in 2006 and \$2,311,298 in 2005	143,788,080	142,385,041
Property and equipment, net	4,567,086	4,607,952
Foreclosed assets	185,158	36,045
Accrued income	867,393	813,667
Goodwill	120,000	120,000
Bank owned life insurance	2,768,126	2,740,420
Other assets	936,690	922,636
Total assets	\$ 175,631,366	\$ 179,570,827
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 24,043,931	\$ 23,953,425
Interest-bearing	116,210,229	121,902,246
Total deposits	140,254,160	145,855,671
Federal funds purchased and securities sold under agreements to repurchase	869,369	1,157,917
Short-term debt	800,000	
Long-term debt	14,493,326	14,494,525
Dividends payable on preferred stock	29,414	30,068
Accrued interest payable	359,023	312,869
Other liabilities	919,222	458,991
Total liabilities	157,724,514	162,310,041
Commitments and contingencies		
Stockholders equity		
Preferred stock, 1,000,000 shares authorized, 189,356 shares of Series A, issued and outstanding with no par value, 4.5% convertible non-cumulative, perpetual; with a liquidation value of \$14 per share	2,620,325	2,620,325
Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 2005	8,220,261	8,236,917
Retained earnings	7,078,853	6,418,744
Accumulated other comprehensive income (loss)	(12,587)	(15,200)
Total stockholders equity	17,906,852	17,260,786
Total liabilities and stockholders equity	\$ 175,631,366	\$ 179,570,827

See Notes to Consolidated Financial Statements

Table of Contents**Consolidated Statements of Income***Three months ended March 31, 2006 and 2005 (Unaudited)*

	2006	2005
Interest income		
Loans and fees on loans	\$ 2,902,872	\$ 2,254,317
Federal funds sold	4,390	2,179
Investment securities, taxable	42,516	26,387
Deposits with banks	177,216	60,117
Total interest income	3,126,994	2,343,000
Interest expense		
Deposits	983,771	650,262
Federal funds purchased		664
Securities sold under agreements to repurchase	7,431	2,110
Short-term debt	7,369	
Long-term debt	145,166	109,346
Total interest expense	1,143,737	762,382
Net interest income	1,983,257	1,580,618
Provision for loan losses		
Net interest income after provision for loan losses	82,839	120,006
Noninterest income		
Service charges on deposit accounts	243,235	224,527
Net gain on sale of mortgage loans	20,416	24,597
Gain on sale of government guaranteed loans	27,588	
Fees on mortgage loans delivered to correspondents	24,480	27,996
Foreclosed assets, net	1,925	
Other service charges and fees	46,000	83,992
Other operating income	162,489	101,297
Total noninterest income	526,133	462,409
Noninterest expense		
Salaries and employee benefits	695,576	636,449
Occupancy expense	93,251	85,763
Equipment expense	79,809	89,961
Data processing	73,558	87,633
Other expense	396,195	379,182
Total noninterest expense	1,338,389	1,278,988
Net income before income taxes	1,088,162	644,033
Income tax expense	398,639	248,024
Net income	689,523	396,009
Preferred stock dividends declared	(29,414)	(29,415)

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Net income available to common shareholders	\$ 660,109	\$ 366,594
<i>Basic earnings per share</i>	\$ 0.45	\$ 0.25
<i>Diluted earnings per share</i>	\$ 0.39	\$ 0.22
<i>Basic weighted average shares outstanding</i>	1,472,085	1,453,362
<i>Diluted weighted average shares outstanding</i>	1,762,946	1,769,679

See Notes to Consolidated Financial Statements

Table of Contents**Consolidated Statements of Cash Flows***Three months ended March 31, 2006 and 2005 (Unaudited)*

	2006	2005
<i>Cash flows from operating activities</i>		
Net income	\$ 689,523	\$ 396,009
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	82,522	83,276
Stock-based compensation	2,976	
Provision for loan losses	82,839	120,006
Deferred income taxes	(8,464)	(2,576)
Accretion of discount on securities, net of amortization of premiums	(12,603)	(7,119)
Increase in cash surrender value of life insurance	(27,706)	(9,149)
Changes in assets and liabilities:		
Accrued income	(53,726)	(139,218)
Other assets	(7,229)	65,403
Accrued interest payable	46,154	91,178
Other liabilities	460,231	113,384
Net cash provided by operating activities	1,254,517	711,194
<i>Cash flows from investing activities</i>		
Net (increase) decrease in interest-bearing deposits with banks	4,389,051	(101,622)
Net (increase) decrease in federal funds sold	99,000	(200,000)
Purchases of investment securities	(989,375)	(1,989,666)
Sales and maturities of investment securities	2,007,320	1,516,359
Purchases of restricted equity securities	(44,100)	(117,470)
Net increase in loans	(1,634,991)	(5,527,356)
Purchases of property and equipment	(41,656)	(156,918)
Purchase of bank owned life insurance		(2,650,000)
Net cash provided by (used in) investing activities	3,785,249	(9,226,673)
<i>Cash flows from financing activities</i>		
Net increase (decrease) in deposits	(5,601,511)	10,917,138
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(288,548)	(2,851,765)
Net increase in short-term debt	800,000	
Net increase (decrease) in long-term debt	(1,199)	998,893
Dividends paid on preferred stock	(30,068)	(29,987)
Common stock options exercised		3,900
Fractional shares purchased	(19,632)	
Net cash provided by (used in) financing activities	(5,140,958)	9,038,179
Net increase (decrease) in cash and cash equivalents	(101,192)	522,700
<i>Cash and cash equivalents, beginning</i>	1,789,131	1,810,543
<i>Cash and cash equivalents, ending</i>	\$ 1,687,939	\$ 2,333,243
<i>Supplemental disclosures of cash flow information</i>		
Interest paid	\$ 1,097,583	\$ 671,204

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Taxes paid	\$ 8,790	\$ 32,074
Loans transferred to foreclosed properties	\$ 149,113	\$

See Notes to Consolidated Financial Statements

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Consolidated Statements of Stockholders' Equity

Three months ended March 31, 2006 and 2005 (Unaudited)

	Preferred Stock		Common Stock		Retained Earnings	Unrealized Appreciation (Depreciation) On Securities	Total
	Shares	Amount	Shares	Amount			
<i>Balance, January 1, 2005</i>	189,356	\$ 2,620,325	1,211,008	\$ 8,100,261	\$ 4,337,224	\$ (12,389)	\$ 15,045,421
Comprehensive income							