

SURREY BANCORP
Form 10-Q
November 12, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
for the quarterly period ended September 30, 2015

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

COMMISSION FILE NO. 000-50313

SURREY BANCORP

(Exact name of registrant as specified in its charter)

North Carolina 59-3772016
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

145 North Renfro Street, Mount Airy, NC 27030

(Address of principal executive offices)

(336) 783-3900

(Registrant's telephone number)

Check whether the registrant: (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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

Edgar Filing: SURREY BANCORP - Form 10-Q

Non-accelerated filer Smaller reporting company

Indicate by checkmark 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 November 12, 2015 there were 3,549,665 common shares issued and outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

<u>Consolidated Balance Sheets September 30, 2015 (Unaudited) and December 31, 2014</u>	3
<u>Consolidated Statements of Income, Nine Months Ended September 30, 2015 and 2014 (Unaudited)</u>	4
<u>Consolidated Statements of Income, Three Months Ended September 30, 2015 and 2014 (Unaudited)</u>	5
<u>Consolidated Statements of Comprehensive Income, Three and Nine Months Ended September 30, 2015 and 2014 (Unaudited)</u>	6
<u>Consolidated Statements of Cash Flows, Nine Months Ended September 30, 2015 and 2014 (Unaudited)</u>	7
<u>Consolidated Statements of Changes in Stockholders' Equity Nine Months Ended September 30, 2015 and 2014 (Unaudited)</u>	8
<u>Notes to Consolidated Financial Statements</u>	9-23

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 24-31

Item 3. Quantitative and Qualitative Disclosures about Market Risk 32

Item 4. Controls and Procedures 32

PART II – OTHER INFORMATION

Item 1. Legal Proceedings 32

Item 1A. Risk Factors 32

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 32

Item 3. Defaults Upon Senior Securities 32

Item 4. Mine Safety Disclosures 32

Item 5. Other Information 32

Item 6. Exhibits 32

SIGNATURES 33

CERTIFICATIONS 34-36

Table of Contents

Consolidated Balance Sheets

September 30, 2015 (Unaudited) and December 31, 2014 (Audited)

	September 2015	December 2014
Assets		
Cash and due from banks	\$5,040,193	\$6,236,749
Interest-bearing deposits with banks	54,449,791	37,315,779
Federal funds sold	1,217,554	1,212,776
Investment securities available for sale	5,343,021	4,363,805
Restricted equity securities	524,939	618,109
Loans, net of allowance for loan losses of \$3,567,517 at September 30, 2015 and \$3,554,664 at December 31, 2014	195,175,423	189,549,072
Property and equipment, net	5,061,728	4,368,589
Foreclosed assets	421,491	280,821
Accrued income	1,124,759	997,681
Goodwill	120,000	120,000
Bank owned life insurance	5,087,372	5,623,087
Other assets	3,349,697	2,514,855
Total assets	\$276,915,968	\$253,201,323
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	\$60,441,761	\$52,969,691
Interest-bearing	169,507,737	153,696,890
Total deposits	229,949,498	206,666,581
Long-term debt	4,250,000	6,250,000
Dividends payable	46,233	827,159
Accrued interest payable	147,932	110,261
Other liabilities	3,641,905	2,576,668
Total liabilities	238,035,568	216,430,669
Commitments and contingencies (Note 4)		
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
181,154 shares of Series D issued and outstanding with no par value 5.0% convertible non-cumulative, perpetual; with a liquidation value of \$7.08 per share;	1,248,482	1,248,482
Common stock, 10,000,000 shares authorized at no par value; 3,549,665 shares issued and outstanding	12,101,480	12,101,480
Retained earnings	22,938,076	20,808,309
Accumulated other comprehensive loss	(27,963)	(7,942)
Total stockholders' equity	38,880,400	36,770,654
Total liabilities and stockholders' equity	\$276,915,968	\$253,201,323

See Notes to Consolidated Financial Statements

3

Table of Contents

Consolidated Statements of Income

Nine months ended September 30, 2015 and 2014 (Unaudited)

	2015	2014
Interest income		
Loans and fees on loans	\$8,096,051	\$7,908,742
Federal funds sold	2,046	2,036
Investment securities available for sale, taxable	54,184	45,837
Investment securities available for sale, dividends	11,782	10,656
Deposits with banks	74,108	69,381
Total interest income	8,238,171	8,036,652
Interest expense		
Deposits	702,058	816,409
Fed funds purchased	3	19
Long-term debt	162,591	218,019
Total interest expense	864,652	1,034,447
Net interest income	7,373,519	7,002,205
Provision for loan losses	85,717	132,952
Net interest income after provision for loan losses	7,287,802	6,869,253
Noninterest income		
Service charges on deposit accounts	592,842	598,988
Gain on the sale of government guaranteed loans	-	127,362
Fees on loans delivered to correspondents	71,583	18,464
Other service charges and fees	543,378	499,856
Gain (loss) on the sale of investment securities	5,244	(1,670)
Income from bank owned life insurance	111,190	119,720
Insurance commissions	374,972	388,778
Brokerage commissions	135,374	139,911
Other operating income	83,030	51,176
Total noninterest income	1,917,613	1,942,585
Noninterest expense		
Salaries and employee benefits	2,914,354	2,869,549
Occupancy expense	338,881	339,324
Equipment expense	206,926	204,098
Data processing	336,903	341,079
Foreclosed assets, net	119,015	12,770
Postage, printing and supplies	148,879	143,987
Professional fees	371,484	323,384
FDIC insurance premiums	87,228	89,503
Other expense	1,146,040	1,094,460
Total noninterest expense	5,669,710	5,418,154
Net income before income taxes	3,535,705	3,393,684
Income tax expense	1,268,748	1,234,817
Net income	2,266,957	2,158,867

Edgar Filing: SURREY BANCORP - Form 10-Q

Preferred stock dividends	(137,190)	(137,190)
Net income available to common stockholders	\$2,129,767	\$2,021,677
Basic earnings per common share	\$0.60	\$0.57
Diluted earnings per common share	\$0.54	\$0.52
Basic weighted average common shares outstanding	3,549,665	3,542,984
Diluted weighted average common shares outstanding	4,186,647	4,178,933

See Notes to Consolidated Financial Statements

4

Table of Contents

Consolidated Statements of Income

Three months ended September 30, 2015 and 2014 (Unaudited)

	2015	2014
Interest income		
Loans and fees on loans	\$2,739,903	\$2,684,694
Federal funds sold	683	682
Investment securities available for sale, taxable	20,099	13,430
Investment securities available for sale, dividends	5,663	3,525
Deposits with banks	26,111	22,137
Total interest income	2,792,459	2,724,468
Interest expense		
Deposits	234,890	269,901
Long-term debt	44,127	73,472
Total interest expense	279,017	343,373
Net interest income	2,513,442	2,381,095
Provision for loan losses	129,213	139,527
Net interest income after provision for loan losses	2,384,229	2,241,568
Noninterest income		
Service charges on deposit accounts	193,177	197,443
Fees on loans delivered to correspondents	43,775	12,347
Other service charges and fees	183,890	177,806
Gain on the sale of investment securities	868	873
Income from bank owned life insurance	37,621	40,236
Insurance commissions	159,657	134,552
Brokerage commissions	32,914	50,260
Other operating income	15,462	15,254
Total noninterest income	667,364	628,771
Noninterest expense		
Salaries and employee benefits	922,424	920,537
Occupancy expense	110,303	115,069
Equipment expense	79,670	70,981
Data processing	105,695	130,002
Foreclosed assets, net	33,404	5,466
Postage, printing and supplies	42,238	47,039
Professional fees	123,479	115,523
FDIC insurance premiums	30,689	30,320
Other expense	351,758	318,085
Total noninterest expense	1,799,660	1,753,022
Net income before income taxes	1,251,933	1,117,317
Income tax expense	453,346	402,629
Net income	798,587	714,688
Preferred stock dividends	(46,233)	(46,233)

Edgar Filing: SURREY BANCORP - Form 10-Q

Net income available to common stockholders	\$752,354	\$668,455
Basic earnings per common share	\$0.21	\$0.19
Diluted earnings per common share	\$0.19	\$0.17
Basic weighted average common shares outstanding	3,549,665	3,542,984
Diluted weighted average common shares outstanding	4,185,109	4,180,983

See Notes to Consolidated Financial Statements

5

Table of Contents

Consolidated Statements of Comprehensive Income

Three and Nine months ended September 30, 2015 and 2014 (Unaudited)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
Net income	\$798,587	\$714,688	\$2,266,957	\$2,158,867
Other comprehensive income (loss):				
Investment securities available for sale:				
Unrealized holding gains (losses)	(32,904)	(4,561)	(22,693)	65,750
Tax effect	10,597	1,492		