

SURREY BANCORP  
Form 10-Q  
November 12, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **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 UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**COMMISSION FILE NO. 000-50313**

**SURREY BANCORP**

**(Exact name of registrant as specified in its charter)**

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**North Carolina**  
(State or other jurisdiction of

**59-3772016**  
(IRS Employer

incorporation or organization)

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

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 8, 2010 there were 3,206,495 common shares issued and outstanding.

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**Table of Contents****Consolidated Balance Sheets***September 30, 2010 (Unaudited) and December 31, 2009 (Audited)*

	September 2010	December 2009
<b>Assets</b>		
Cash and due from banks	\$ 2,290,447	\$ 1,923,621
Interest-bearing deposits with banks	28,592,753	19,067,374
Federal funds sold	454,070	412,947
Investment securities available for sale	1,999,447	2,011,925
Restricted equity securities	976,129	1,047,514
Loans, net of allowance for loan losses of \$5,782,869 at September 30, 2010 and \$4,669,905 at December 31, 2009	173,197,531	180,442,154
Property and equipment, net	4,795,803	4,881,770
Foreclosed assets	296,335	53,336
Accrued income	978,377	1,032,989
Goodwill	120,000	120,000
Bank owned life insurance	3,256,671	3,173,307
Other assets	3,986,426	2,782,845
<b>Total assets</b>	<b>\$ 220,943,989</b>	<b>\$ 216,949,782</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 33,393,016	\$ 24,709,970
Interest-bearing	146,380,287	149,264,588
<b>Total deposits</b>	<b>179,773,303</b>	<b>173,974,558</b>
Short-term debt		3,750,000
Long-term debt	9,450,000	9,200,000
Dividends payable	43,998	44,603
Accrued interest payable	286,726	291,111
Other liabilities	1,994,494	1,264,158
<b>Total liabilities</b>	<b>191,548,521</b>	<b>188,524,430</b>
<b>Commitments and contingencies</b>		
<b>Stockholders equity</b>		
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
2,000 shares of Series B, issued and outstanding with no par value, fixed rate (5%) cumulative perpetual, with a liquidation value of \$1,000 per share, net of accreted discount;	1,929,227	1,903,283
100 shares of Series C, issued and outstanding with no par value, fixed rate (9%) cumulative perpetual, with a liquidation value of \$1,000 per share, net of amortized premium	101,014	103,222

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Common stock, 10,000,000 shares authorized at no par value; 3,206,495 and 3,198,105 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	9,462,653	9,406,429
Retained earnings	15,360,330	14,468,089
Accumulated other comprehensive loss	(78,081)	(75,996)
<b>Total stockholders' equity</b>	<b>29,395,468</b>	<b>28,425,352</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 220,943,989</b>	<b>\$ 216,949,782</b>

*See Notes to Consolidated Financial Statements*

**Table of Contents****Consolidated Statements of Income***Nine months ended September 30, 2010 and 2009 (Unaudited)*

	2010	2009
<b><i>Interest income</i></b>		
Loans and fees on loans	\$ 8,277,716	\$ 7,988,196
Federal funds sold	594	399
Investment securities, taxable	37,655	54,657
Deposits with banks	20,053	17,587
Total interest income	8,336,018	8,060,839
<b><i>Interest expense</i></b>		
Deposits	1,557,497	2,188,643
Federal funds purchased and securities sold under agreements to repurchase		400
Short-term debt	17,720	19,799
Long-term debt	298,394	314,529
Total interest expense	1,873,611	2,523,371
Net interest income	6,462,407	5,537,468
<b><i>Provision for loan losses</i></b>	1,840,578	1,014,997
Net interest income after provision for loan losses	4,621,829	4,522,471
<b><i>Noninterest income</i></b>		
Service charges on deposit accounts	800,693	851,639
Gain on sale of government guaranteed loans	244,924	
Fees and yield spread premiums on loans delivered to correspondents	91,511	116,960
Other service charges and fees	335,456	285,484
Other operating income	529,071	483,573
Life insurance proceeds		1,000,000
Total noninterest income	2,001,655	2,737,656
<b><i>Noninterest expense</i></b>		
Salaries and employee benefits	2,563,874	2,502,541
Occupancy expense	313,507	323,719
Equipment expense	192,050	210,399
Data processing	306,287	283,534
Foreclosed assets, net	23,644	59,667
FDIC insurance premiums	184,271	220,310
Other expense	1,326,747	1,307,604
Total noninterest expense	4,910,380	4,907,774

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Net income before income taxes	1,713,104	2,352,353
Income tax expense	626,756	422,983
Net income	1,086,348	1,929,370
<i>Preferred stock dividends and accretion of discount</i>	(194,107)	(191,889)
Net income available to common stockholders	\$ 892,241	\$ 1,737,481
<i>Basic earnings per common share</i>	\$ 0.28	\$ 0.54
<i>Diluted earnings per common share</i>	\$ 0.27	\$ 0.51
<i>Basic weighted average common shares outstanding</i>	3,206,341	3,191,040
<i>Diluted weighted average common shares outstanding</i>	3,603,784	3,592,752

*See Notes to Consolidated Financial Statements*

**Table of Contents****Consolidated Statements of Income***Three months ended September 30, 2010 and 2009 (Unaudited)*

	<b>2010</b>	<b>2009</b>
<b><i>Interest income</i></b>		
Loans and fees on loans	\$ 2,738,272	\$ 2,733,829
Federal funds sold	190	128
Investment securities, taxable	11,992	16,988
Deposits with banks	8,342	5,225
Total interest income	2,758,796	2,756,170
<b><i>Interest expense</i></b>		
Deposits	515,211	658,619
Short-term debt		6,200
Long-term debt	94,931	100,832
Total interest expense	610,142	765,651
Net interest income	2,148,654	1,990,519
<b><i>Provision for loan losses</i></b>	<b>636,736</b>	<b>261,001</b>
Net interest income after provision for loan losses	1,511,918	1,729,518
<b><i>Noninterest income</i></b>		
Service charges on deposit accounts	268,216	311,605
Fees and yield spread premiums on loans delivered to correspondents	41,774	28,090
Other service charges and fees	112,407	98,657
Other operating income	159,609	152,731