

SURREY BANCORP
Form 10QSB
November 06, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

(Issuer's telephone number)

59-3772016
(IRS Employer

Identification No.)

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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 November 3, 2006 there were 1,494,423 common shares issued and outstanding

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

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Consolidated Balance Sheets*September 30, 2006 (Unaudited) and December 31, 2005 (Audited)*

	September	December
	2006	2005
Assets		
Cash and due from banks	\$ 1,720,644	\$ 1,789,131
Interest-bearing deposits with banks	17,288,148	20,515,582
Federal funds sold	408,000	504,000
Investment securities available for sale	3,627,767	4,129,223
Restricted equity securities	1,051,230	1,007,130
Loans, net of allowance for loan losses of \$2,528,533 in 2006 and \$2,311,298 in 2005	145,687,311	142,385,041
Property and equipment, net	4,455,566	4,607,952
Foreclosed assets	76,323	36,045
Accrued income	975,634	813,667
Goodwill	120,000	120,000
Bank owned life insurance	2,820,804	2,740,420
Other assets	2,158,546	922,636
 Total assets	 \$ 180,389,973	 \$ 179,570,827
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 26,403,203	\$ 23,953,425
Interest-bearing	118,011,965	121,902,246
 Total deposits	 144,415,168	 145,855,671
Federal funds purchased and securities sold under agreements to repurchase	366,367	1,157,917
Long-term debt	13,990,929	14,494,525
Dividends payable on preferred stock	30,069	30,068
Accrued interest payable	527,945	312,869
Other liabilities	1,676,663	458,991
 Total liabilities	 161,007,141	 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; 1,494,423 shares issued in 2006 and 1,472,094 shares issued in 2005	8,415,593	8,236,917
Retained earnings	8,352,594	6,418,744
Accumulated other comprehensive income (loss)	(5,680)	(15,200)
 Total stockholders equity	 19,382,832	 17,260,786
 Total liabilities and stockholders equity	 \$ 180,389,973	 \$ 179,570,827

See Notes to Consolidated Financial Statements

Consolidated Statements of Income*Nine months ended September 30, 2006 and 2005 (Unaudited)*

	2006	2005
Interest income		
Loans and fees on loans	\$ 9,154,043	\$ 7,400,901
Federal funds sold	14,536	9,991
Investment securities, taxable	151,476	90,581
Deposits with banks	510,855	189,933
Total interest income	9,830,910	7,691,406
Interest expense		
Deposits	3,195,298	2,221,050
Federal funds purchased		1,108
Securities sold under agreements to repurchase	25,264	9,257
Short-term debt	28,010	
Long-term debt	454,546	361,686
Total interest expense	3,703,118	2,593,101
Net interest income	6,127,792	5,098,305
Provision for loan losses		
Net interest income after provision for loan losses	409,984	275,583
Noninterest income		
Service charges on deposit accounts	767,815	733,055
Net gain on sale of mortgage loans	78,282	80,805
Gain on sale of government guaranteed loans	27,588	181,545
Fees on mortgage loans delivered to correspondents	90,203	83,455
Other service charges and fees	142,500	104,417
Other operating income	418,388	365,176
Total noninterest income	1,524,776	1,548,453
Noninterest expense		
Salaries and employee benefits	2,106,617	1,869,640
Occupancy expense	276,913	272,486
Equipment expense	249,266	271,420
Data processing	256,882	268,176
Foreclosed assets, net	(1,691)	525
Other expense	1,244,169	1,200,702
Total noninterest expense	4,132,156	3,882,949
Net income before income taxes	3,110,428	2,488,226
Income tax expense	1,087,352	940,869
Net income	2,023,076	1,547,357
Preferred stock dividends declared	(89,226)	(89,225)

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Net income available to common shareholders	\$ 1,933,850	\$ 1,458,132
<i>Basic earnings per share</i>	\$ 1.31	\$ 1.00
<i>Diluted earnings per share</i>	\$ 1.15	\$ 0.89
<i>Basic weighted average shares outstanding</i>	1,479,715	1,462,892
<i>Diluted weighted average shares outstanding</i>	1,754,804	1,742,494

See Notes to Consolidated Financial Statements

Consolidated Statements of Income*Three months ended September 30, 2006 and 2005 (Unaudited)*

	2006	2005
Interest income		
Loans and fees on loans	\$ 3,201,689	\$ 2,676,173
Federal funds sold	5,248	4,270
Investment securities, taxable	56,489	30,525
Deposits with banks	186,060	76,991
Total interest income	3,449,486	2,787,959
Interest expense		
Deposits	1,168,025	832,430
Securities sold under agreements to repurchase	8,576	2,953
Long-term debt	161,797	134,223
Total interest expense	1,338,398	969,606
Net interest income	2,111,088	1,818,353
Provision for loan losses	128,521	102,902
Net interest income after provision for loan losses	1,982,567	1,715,451
Noninterest income		
Service charges on deposit accounts	257,617	273,424
Net gain on sale of mortgage loans	27,315	26,105
Gain on the sale of government guaranteed loans		181,545
Fees on mortgage loans delivered to correspondents	31,416	33,788
Other service charges and fees	49,139	37,958
Other operating income	121,150	99,855
Total noninterest income	486,637	652,675
Noninterest expense		
Salaries and employee benefits	735,870	640,854
Occupancy expense	93,079	100,530
Equipment expense	82,187	88,728
Data processing	93,250	92,780
Foreclosed assets, net	(2,440)	525
Other expense	388,232	440,989
Total noninterest expense	1,390,178	1,364,406
Net income before income taxes	1,079,026	1,003,720
Income tax expense	345,617	378,872
Net income	733,409	624,848
Preferred stock dividends declared	(30,069)	(30,068)
Net income available to common shareholders	\$ 703,340	\$ 594,780
Basic earnings per share	\$ 0.47	\$ 0.40

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<i>Diluted earnings per share</i>	\$ 0.41	\$ 0.36
<i>Basic weighted average shares outstanding</i>	1,493,855	1,470,821
<i>Diluted weighted average shares outstanding</i>	1,768,019	1,750,631

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows*Nine months ended September 30, 2006 and 2005 (Unaudited)*

	2006	2005
<i>Cash flows from operating activities</i>		
Net income	\$ 2,023,076	\$ 1,547,357
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	252,387	261,572
Loss on the sale/abandonment of fixed assets		20,672
Gain on the sale of foreclosed assets	(1,691)	
Stock-based compensation	15,489	