

SUSSEX BANCORP
Form 10-Q
November 14, 2012

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, 2012

**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 07416
(Address of principal executive offices) (Zip Code)

(973) 827-2914

(Registrant's telephone number, including area code)

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 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 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 company
(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 2, 2012 there were 3,397,873 shares of common stock, no par value, outstanding.

SUSSEX BANCORP

FORM 10-Q

INDEX

FORWARD-LOOKING STATEMENTS	ii
PART I – FINANCIAL INFORMATION	1
Item 1 - Financial Statements	1
Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	33
Item 4 - Controls and Procedures	33
PART II – OTHER INFORMATION	34
Item 1 - Legal Proceedings	34
Item 1A - Risk Factors	34
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	.34
Item 3 - Defaults Upon Senior Securities	34
Item 4 - Mine Safety Disclosures	34
Item 5 - Other Information	34
Item 6 - Exhibits	34

FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements contained in our filings with the Securities and Exchange Commission (the “SEC”), our reports to shareholders and in other communications by us. This Report on Form 10-Q contains “forward-looking statements” which may be identified by the use of such words as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operation and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

§ changes in the interest rate environment that reduce margins;

§ changes in the regulatory environment;

§ the highly competitive industry and market area in which we operate;

§ general economic conditions, either nationally or regionally, resulting in, among other things, a deterioration in credit quality;

§ changes in business conditions and inflation;

§ changes in credit market conditions;

§ changes in the securities markets which affect investment management revenues;

§ increases in Federal Deposit Insurance Corporation (“FDIC”) deposit insurance premiums and assessments could adversely affect our financial condition;

§ changes in technology used in the banking business;

§ the soundness of other financial services institutions which may adversely affect our credit risk;

§ our controls and procedures may fail or be circumvented;

§ new line of business or new products and services which may subject us to additional risks;

§ changes in key management personnel which may adversely impact our operations;

§ the effect on our operations of recent legislative and regulatory initiatives that were or may be enacted in response to the ongoing financial crisis;

§ severe weather, natural disasters, acts of war or terrorism and other external events which could significantly impact our business;

§ other factors detailed from time to time in our filings with the SEC.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements**SUSSEX BANCORP****CONSOLIDATED BALANCE SHEETS***(Unaudited)*

(Dollars In Thousands)	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 6,513	\$ 3,903
Interest-bearing deposits with other banks	3,917	33,597
Cash and cash equivalents	10,430	37,500
Interest bearing time deposits with other banks	100	100
Securities available for sale, at estimated fair value	119,002	96,361
Securities held to maturity, at cost (estimated fair value of \$5,802 at September 30, 2012 and \$4,345 at December 31, 2011)	5,593	4,220
Federal Home Loan Bank Stock, at cost	1,943	1,837
Loans receivable, net of unearned income	340,395	339,705
Less: allowance for loan losses	6,721	7,210
Net loans receivable	333,674	332,495
Foreclosed real estate	5,158	5,509
Premises and equipment, net	6,630	6,778
Accrued interest receivable	1,861	1,735
Goodwill	2,820	2,820
Bank-owned life insurance	11,442	11,142
Other assets	5,641	6,456
Total Assets	\$ 504,294	\$ 506,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 46,813	\$ 44,762
Interest bearing	370,528	380,614

Edgar Filing: SUSSEX BANCORP - Form 10-Q

Total Deposits	417,341	425,376
Long-term borrowings	26,000	26,000
Accrued interest payable and other liabilities	6,884	2,788
Junior subordinated debentures	12,887	12,887
Total Liabilities	463,112	467,051
Stockholders' Equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	-	-
Common stock, no par value, 10,000,000 shares authorized; issued shares 3,409,056 in 2012 and 3,373,793 in 2011; outstanding shares 3,397,873 in 2012 and 3,372,949 in 2011	28,076	27,964
Treasury stock, at cost; 11,183 shares in 2012 and 844 shares in 2011	(59) (4
Retained earnings	12,055	11,223
Accumulated other comprehensive income	1,110	719
Total Stockholders' Equity	41,182	39,902
Total Liabilities and Stockholders' Equity	\$ 504,294	\$ 506,953

See Notes to Unaudited Consolidated Financial Statements

SUSSEX BANCORP**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME***(Unaudited)*

(Dollars in thousands except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
INTEREST INCOME				
Loans receivable, including fees	\$ 4,467	\$ 4,687	\$ 13,292	\$ 14,210
Securities:				
Taxable	241	313	994	989
Tax-exempt	292	296	827	879
Federal funds sold	-	-	-	3
Interest bearing deposits	4	20	30	32
Total Interest Income	5,004	5,316	15,143	16,113
INTEREST EXPENSE				
Deposits	587	806	1,938	2,342
Borrowings	268	268	797	797
Junior subordinated debentures	60	55	183	164
Total Interest Expense	915	1,129	2,918	3,303
Net Interest Income	4,089	4,187	12,225	12,810
PROVISION FOR LOAN LOSSES	1,104	737	2,922	2,688
Net Interest Income after Provision for Loan Losses	2,985	3,450	9,303	10,122
OTHER INCOME				
Service fees on deposit accounts	292	324	842	968
ATM and debit card fees	165	140	453	400
Bank-owned life insurance	96	105	300	314
Insurance commissions and fees	684	545	1,892	1,724
Investment brokerage fees	46	33	118	103
Net gain on sale of loans, held for sale	-	-	47	-
Net gain (loss) on securities transactions	569	(1)	763	268
Net loss on sale of premises and equipment	-	-	(6)	-
Net gain (loss) on sale of foreclosed real estate	2	2	5	(2)
Other	108	58	291	177
Total Other Income	1,962	1,206	4,705	3,952
OTHER EXPENSES				
Salaries and employee benefits	2,196	2,219	6,744	6,212
Occupancy, net	355	338	1,071	1,055
Furniture, equipment and data processing	326	283	1,014	871
Advertising and promotion	63	52	222	141
Professional fees	175	163	478	439
Director fees	56	5	236	144
FDIC assessment	177	153	516	535
Insurance	68	53	179	163

Edgar Filing: SUSSEX BANCORP - Form 10-Q

Stationary and supplies	44	39	128	122
Loan collection costs	204	314	539	606
Expenses and write-downs related to foreclosed real estate	234	74	1,044	322
Amortization of intangible assets	1	3	4	8
Other	396	329	1,095	966
Total Other Expenses	4,295	4,025	13,270	11,584
Income before Income Taxes	652	631	738	2,490
PROVISION (BENEFIT) FOR INCOME TAXES	106	97	(94)) 535
Net Income	\$ 546	\$ 534	\$ 832	\$ 1,955
OTHER COMPREHENSIVE INCOME:				
Net unrealized gains on available for sale securities arising during the period	693	353	1,413	1,425
Reclassification adjustment for (gain) loss on sales included in net income	(569)) 1	(763)) (268)
Income tax expense related to items of other comprehensive income	(49)) (142)) (259)) (463)
Other comprehensive income, net of income taxes	75	212	391	694
Comprehensive income	\$ 621	\$ 746	\$ 1,223	\$ 2,649
EARNINGS PER SHARE				
Basic	\$ 0.17	\$ 0.16	\$ 0.26	\$ 0.60
Diluted	\$ 0.17	\$ 0.16	\$ 0.25	\$ 0.59

See Notes to Unaudited Consolidated Financial Statements

SUSSEX BANCORP**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****Nine Months Ended September 30, 2012 and 2011***(Unaudited)*

(Dollars In Thousands)	Number of Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2010	3,351,566	\$27,870	\$8,753	\$ 47	\$ (4)	\$ 36,666
Net income	-	-	1,955	-	-	1,955
Other comprehensive income	-	-	-	694	-	694
Restricted stock granted	22,805	-	-	-	-	-
Restricted stock forfeited	(1,683)	-	-	-	-	-
Compensation expense related to stock option and restricted stock grants	-	73	-	-	-	73
Balance September 30, 2011	3,372,688	\$27,943	\$10,708	\$ 741	\$ (4)	\$ 39,388