

SUSSEX BANCORP
Form 10-Q
May 15, 2014

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 March 31, 2014

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 22-3475473

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

399 Route 23, Franklin, NJ 07416
(Address of principal executive offices) (Zip Code)

(844) 256-7328

(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 May 9, 2014 there were 4,663,256 shares of common stock, no par value, outstanding.

SUSSEX BANCORP

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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 lines 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; and
- § 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

(Dollars In Thousands)	March 31, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	\$ 7,349	\$ 5,521
Interest-bearing deposits with other banks	463	7,725
Cash and cash equivalents	7,812	13,246
Interest bearing time deposits with other banks	100	100
Securities available for sale, at fair value	88,273	90,676
Securities held to maturity, at cost (fair value of \$5,863 and \$6,060 at March 31, 2014 and December 31, 2013, respectively)	5,800	6,074
Federal Home Loan Bank Stock, at cost	3,425	2,705
Loans receivable, net of unearned income	412,724	392,402
Less: allowance for loan losses	5,437	5,421
Net loans receivable	407,287	386,981
Foreclosed real estate	3,140	2,926
Premises and equipment, net	7,603	6,892
Accrued interest receivable	1,772	1,642
Goodwill	2,820	2,820
Bank-owned life insurance	11,972	11,889
Other assets	6,968	7,960
Total Assets	\$ 546,972	\$ 533,911
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 59,106	\$ 58,210
Interest bearing	366,731	372,087
Total Deposits	425,837	430,297
Short-term borrowings	10,000	-
Long-term borrowings	46,000	41,000

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Accrued interest payable and other liabilities	4,035	3,302
Junior subordinated debentures	12,887	12,887
Total Liabilities	498,759	487,486
Stockholders' Equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	-	-
Common stock, no par value, 10,000,000 shares authorized; 4,669,039 and 4,640,296 shares issued and 4,657,856 and 4,629,113 shares outstanding at March 31, 2014 and December 31, 2013, respectively	35,329	35,249
Treasury stock, at cost; 11,183 shares	(59)	(59)
Retained earnings	14,064	13,386
Accumulated other comprehensive loss	(1,121)	(2,151)
Total Stockholders' Equity	48,213	46,425
Total Liabilities and Stockholders' Equity	\$ 546,972	\$ 533,911

See Notes to Unaudited Consolidated Financial Statements

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

(Dollars in thousands except per share data)	Three Months Ended March 31,	
	2014	2013
INTEREST INCOME		
Loans receivable, including fees	\$ 4,623	\$ 4,276
Securities:		
Taxable	217	154
Tax-exempt	254	262
Interest bearing deposits	3	5
Total Interest Income	5,097	4,697
INTEREST EXPENSE		
Deposits	390	538
Borrowings	348	262
Junior subordinated debentures	53	54
Total Interest Expense	791	854
Net Interest Income	4,306	3,843
PROVISION FOR LOAN LOSSES	453	1,142
Net Interest Income after Provision for Loan Losses	3,853	2,701
OTHER INCOME		
Service fees on deposit accounts	264	286
ATM and debit card fees	167	160
Bank-owned life insurance	83	92
Insurance commissions and fees	973	842
Investment brokerage fees	31	45
Net gain on securities transactions	-	370
Other	73	90
Total Other Income	1,591	1,885
OTHER EXPENSES		
Salaries and employee benefits	2,418	2,235
Occupancy, net	453	394
Data processing	380	329
Furniture and equipment	164	152
Advertising and promotion	44	40
Professional fees	153	185

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Director fees	137	206
FDIC assessment	176	169
Insurance	76	76
Stationary and supplies	55	49
Loan collection costs	77	98
Net expenses and write-downs related to foreclosed real estate	100	411
Amortization of intangible assets	-	1
Other	235	233
Total Other Expenses	4,468	4,578
Income before Income Taxes	976	8
EXPENSE (BENEFIT) FOR INCOME TAXES	298	(90)
Net Income	678	98
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gains (losses) on available for sale securities arising during the period	1,717	(644)
Reclassification adjustment for net gain on securities transactions included in net income	-	(370)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(687)	405
Other comprehensive income (loss), net of income taxes	1,030	(609)
Comprehensive income (loss)	\$ 1,708	\$ (511)
EARNINGS PER SHARE		
Basic	\$ 0.15	\$ 0.03
Diluted	\$ 0.15	\$ 0.03
See Notes to Unaudited Consolidated Financial Statements		

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2014 and 2013
(Unaudited)

(Dollars In Thousands)	Number of Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2012	3,397,873	\$ 28,117	\$ 11,958	\$ 356	\$ (59)	\$ 40,372
Net income	-	-	98	-	-	98
Other comprehensive loss	-	-	-	(609)	-	(609)
Restricted stock granted	26,340	-	-	-	-	-
Compensation expense related to stock option and restricted stock grants	-	54	-	-	-	54
Balance March 31, 2013	3,424,213	\$ 28,171	\$ 12,056	\$ (253)	\$ (59)	\$ 39,915
Balance December 31, 2013	4,629,113	\$ 35,249	\$ 13,386	\$ (2,151)	\$ (59)	\$ 46,425
Net income	-	-	678	-	-	678
Other comprehensive income	-	-	-	1,030	-	1,030
Restricted stock granted	29,043	-	-	-	-	-
Restricted stock forfeited	(300)	-	-	-	-	-
Compensation expense related to stock option and restricted stock grants	-	80	-	-	-	80
Balance March 31, 2014	4,657,856	\$ 35,329	\$ 14,064	\$ (1,121)	\$ (59)	\$ 48,213

See Notes to Unaudited Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Three Months Ended March 31, 2014	2013
Cash Flows from Operating Activities		
Net income	\$ 678	\$ 98
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	453	1,142
Depreciation and amortization	163	171
Net amortization of securities premiums and discounts	489	921
Net realized gain on sale of securities	-	(370)
Net realized gain on sale of foreclosed real estate	(13)	(29)
Write-downs of and provisions for foreclosed real estate	-	196
Deferred income taxes	251	381
Earnings on bank-owned life insurance	(83)	(92)
Compensation expense for stock options and stock awards	80	54
(Increase) decrease in assets:		
Accrued interest receivable	(130)	(40)
Other assets	55	(720)
Decrease in accrued interest payable and other liabilities	733	128
Net Cash Provided by Operating Activities	2,676	1,840
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(4)	(27,529)
Sales	-	10,836
	3,646	10,769

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Maturities, calls and principal repayments			
Securities held to maturity:			
Purchases	-		(263)
Maturities, calls and principal repayments	262		-
Net increase in loans	(21,202)		(5,449)
Proceeds from the sale of foreclosed real estate	242		966
Purchases of bank premises and equipment	(874)		(30)
Increase in FHLB stock	(720)		(135)
Net Cash Used in Investing Activities	(18,650)		(10,835)
Cash Flows from Financing Activities			
Net (decrease) increase in deposits	(4,460)		1,407
Increase in borrowed funds	15,000		3,000
Net Cash Provided by Financing Activities	10,540		4,407
Net Decrease in Cash and Cash Equivalents	(5,434)		(4,588)
Cash and Cash Equivalents - Beginning	13,246		11,668
Cash and Cash Equivalents - Ending	\$ 7,812	\$	7,080
Supplementary Cash Flows Information			
Interest paid	\$ 772	\$	872
Income taxes paid	\$ -	\$	19
Supplementary Schedule of Noncash Investing and Financing Activities			
Foreclosed real estate acquired in settlement of loans	\$ 443	\$	2,689

See Notes to Unaudited Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sussex Bancorp (“we,” “us” or “our”) and our wholly owned subsidiary Sussex Bank (the “Bank”). The Bank’s wholly owned subsidiaries are SCB Investment Company, Inc., SCBNY Company, Inc., ClassicLake Enterprises, LLC, Wheatsworth Properties Corp., PPD Holding Company, LLC, and Tri-State Insurance Agency, Inc. (“Tri-State”), a full service insurance agency located in Sussex County, New Jersey with a satellite office located in Bergen County, New Jersey. Tri-State’s operations are considered a separate segment for financial disclosure purposes. All inter-company transactions and balances have been eliminated in consolidation. The Bank operates nine banking offices, eight located in Sussex County, New Jersey and one in Orange County, New York.

Sussex Bancorp is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the “FRB”). The Bank’s deposits are insured by the Deposit Insurance Fund (“DIF”) of the Federal Deposit Insurance Corporation (“FDIC”) up to applicable limits. The operations of Sussex Bancorp and the Bank are subject to the supervision and regulation of the FRB, FDIC and the New Jersey Department of Banking and Insurance (the “Department”) and the operations of Tri-State are subject to supervision and regulation by the Department.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by the accounting principles generally accepted in the United States of America (“U.S. GAAP”) for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three month period ended March 31, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

We have evaluated events and transactions occurring subsequent to the balance sheet date of March 31, 2014, for items that should potentially be recognized or disclosed in these unaudited consolidated financial statements. The evaluation was conducted through the date these unaudited consolidated financial statements were issued.

Reclassifications

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income.

New Accounting Standards

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB’s objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. For public entities, the guidance is effective for fiscal years beginning after December 15, 2013 and interim periods within those years. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2014, FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors, which clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

NOTE 2 – SECURITIES

Available for Sale

The amortized cost and fair value of securities available for sale as of March 31, 2014 and December 31, 2013 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014				
U.S. government agencies	\$ 5,291	\$ -	\$ (62)	\$ 5,229
State and political subdivisions	28,806	39	(1,681)	27,164
Mortgage-backed securities -				
U.S. government-sponsored enterprises	55,630	350	(561)	55,419
Equity securities-financial services industry and other	414	57	(10)	461
	\$ 90,141	\$ 446	\$ (2,314)	\$ 88,273
December 31, 2013				
U.S. government agencies	\$ 5,421	\$ 8	\$ (49)	\$ 5,380
State and political subdivisions	28,788	3	(2,916)	25,875
Mortgage-backed securities -				
U.S. government-sponsored enterprises	59,640	272	(975)	58,937
Equity securities-financial services industry and other	412	85	(13)	484
	\$ 94,261	\$ 368	\$ (3,953)	\$ 90,676

Securities with a carrying value of approximately \$40.7 million and \$37.2 million at March 31, 2014 and December 31, 2013, respectively, were pledged to secure public deposits and for other purposes required or permitted by applicable laws and regulations.

The amortized cost and fair value of securities available for sale at March 31, 2014, are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -
Due after one year through five years	501	498
Due after five years through ten years	2,718	2,654
Due after ten years	25,587	24,012
Total bonds and obligations	28,806	27,164
U.S. government agencies	5,291	5,229
Mortgage-backed securities:		
U.S. government-sponsored enterprises	55,630	55,419
Equity securities-financial services industry and other	414	461
Total available for sale securities	\$ 90,141	\$ 88,273

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There were no gross realized gains or losses on sales of securities available for sale for the three months ended March 31, 2014. Gross realized gains or losses on sales of securities available for sale were \$378 thousand and \$8 thousand, respectively, for the three months ended March 31, 2013.

Temporarily Impaired Securities

The following table shows gross unrealized losses and fair value of securities with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by category and length of time that individual available for sale securities have been in a continuous unrealized loss position at March 31, 2014 and December 31, 2013.

	Less Than 12 Months	12 Months or More	Total
	Gross	Gross	Gross
	Fair Unrealized	Fair Unrealized	Fair Unrealized
(Dollars in thousands) Value	Losses		