

COOPERATIVE BANKSHARES INC  
Form 10-Q  
November 13, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 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, 2006

OR

**TRANSITIONAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-24626

\_\_\_\_\_  
**COOPERATIVE BANKSHARES, INC.**  
\_\_\_\_\_

(Exact Name of Registrant as Specified in Its Charter)

North Carolina  
(State or Other Jurisdiction of

Incorporation or Organization)

201 Market Street, Wilmington, North Carolina  
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (910) 343-0181

56-1886527  
(I.R.S. Employer

Identification No.)

28401  
(Zip Code)

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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 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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of November 6, 2006, there were 6,513,123 issued and outstanding shares of the registrant's Common Stock.

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**COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(In thousands, except per share data)

	September 30, 2006 (unaudited)	December 31, 2005*
<b>Assets</b>		
Cash and due from banks, noninterest-bearing	\$ 14,770	\$ 18,784
Interest-bearing deposits in other banks	8,037	5,038
Total cash and cash equivalents	22,807	23,822
Securities:		
Available for sale (amortized cost of \$42,015 in September 2006 and \$43,133 in December 2005)	41,250	42,381
Held to maturity (estimated market value of \$1,748 in September 2006 and \$1,981 in December 2005)	1,806	2,029
FHLB stock	6,625	5,829
Loans held for sale	4,979	4,894
Loans	739,292	643,727
Less allowance for loan losses	7,795	6,763
Net loans	731,497	636,964
Other real estate owned	574	26
Accrued interest receivable	4,230	3,345
Premises and equipment, net	10,403	10,537
Goodwill	1,462	1,462
Other assets	17,353	14,977
Total assets	\$ 842,986	\$ 746,266
<b>Liabilities and Stockholders Equity</b>		
Deposits	\$ 648,467	\$ 564,990
Short-term borrowings	31,007	21,803
Escrow deposits	749	561
Accrued interest payable	489	418
Accrued expenses and other liabilities	2,760	3,857
Long-term obligations	103,537	103,541
Total liabilities	787,009	695,170
Stockholders equity:		
Preferred stock, \$1 par value, 3,000 shares authorized, no shares issued and outstanding		
Common stock, \$1 par value, 14,000 shares authorized, 6,511 and 4,305 shares issued and outstanding	6,511	4,305
Additional paid-in capital	2,894	2,735
Accumulated other comprehensive loss	(470)	(462)

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Retained earnings	47,042	44,518
Total stockholders' equity	55,977	51,096
Total liabilities and stockholders' equity	\$ 842,986	\$ 746,266
Book value per common share**	\$ 8.60	\$ 7.91

\* Derived from audited consolidated financial statements.

\*\* The per share information is computed after giving retroactive effect to the 3-for-2 stock split in the form of a 50% stock dividend declared on May 31, 2006 and paid on June 30, 2006.

*The accompanying notes are an integral part of the consolidated financial statements.*

**Table of Contents****COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
<b>(In thousands, except per share data)</b>				
<b>Interest income:</b>				
Loans	\$ 14,235	\$ 9,907	\$ 39,130	\$ 25,827
Securities	503	525	1,522	1,592
Other	72	27	217	76
Dividends on FHLB stock	93	46	266	155
Total interest income	14,903	10,505	41,135	27,650
<b>Interest expense:</b>				
Deposits	6,045	3,306	15,638	8,150
Short-term borrowings	295	267	961	717
Long-term obligations	1,241	891	3,486	2,078
Total interest expense	7,581	4,464	20,085	10,945
<b>Net interest income</b>	<b>7,322</b>	<b>6,041</b>	<b>21,050</b>	<b>16,705</b>
Provision for loan losses	525	575	1,885	1,550
Net interest income after provision for loan losses	6,797	5,466	19,165	15,155
<b>Noninterest income:</b>				
Gain on sale of loans	453	571	1,331	1,895
Service charges and fees on loans	136	248	415	652
Deposit-related fees	536	495	1,521	1,305
Bank-owned life insurance earnings	91	95	283	253
Other income, net	54	49	177	137
Total noninterest income	1,270	1,458	3,727	4,242
<b>Noninterest expenses:</b>				
Compensation and fringe benefits	2,914	2,656	8,785	7,762
Occupancy and equipment	969	911	2,821	2,626
Professional and examination fees	163	119	593	371
Advertising	149	160	407	404
Other	408	518	1,602	1,576
Total noninterest expenses	4,603	4,364	14,208	12,739
Income before income taxes	3,464	2,560	8,684	6,658
Income tax expense	1,176	1,054	3,124	2,614

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<b>Net income</b>	<b>\$ 2,288</b>	\$ 1,506	<b>\$ 5,560</b>	\$ 4,044
<b>Net income per common share:</b>				
Basic*	<b>\$ 0.35</b>	\$ 0.23	<b>\$ 0.86</b>	\$ 0.63
Diluted*	<b>\$ 0.34</b>	\$ 0.23	<b>\$ 0.84</b>	\$ 0.62
<b>Weighted average common shares outstanding:</b>				
Basic*	<b>6,506</b>	6,453	<b>6,484</b>	6,445
Diluted*	<b>6,638</b>	6,569	<b>6,619</b>	6,563

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\* The share and per share information is computed after giving retroactive effect to the 3-for-2 stock split in the form of a 50% stock dividend declared on May 31, 2006 and paid on June 30, 2006.

*The accompanying notes are an integral part of the consolidated financial statements.*

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**COOPERATIVE BANKSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

(Unaudited)

(In thousands, except per share data)	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders equity
Balance, December 31, 2005	\$ 4,305	\$ 2,735	\$ (462)	\$ 44,518	\$ 51,096
Exercise of stock options	48	348			396
Stock traded to exercise options (10,417 shares)	(10)	(263)			(273)
Tax benefit of stock option exercised		74			74
3-for-2 stock split in the form of a 50% stock dividend	2,168			(2,168)	
Other comprehensive loss, net of taxes			(8)		(8)
Net income				5,560	5,560
Cash dividends (\$.13 per share)				(868)	(868)
Balance, September 30, 2006	\$ 6,511	\$ 2,894	\$ (470)	\$ 47,042	\$ 55,977

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