# **UNITED STATES**

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-QSB

 x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly paried ended March 21, 2006

For the quarterly period ended March 31, 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 59-3772016 (IRS Employer

incorporation or organization)

145 North Renfro Street, Mount Airy, NC 27030

Identification No.)

(Address of principal executive offices)

(336) 783-3900

#### Edgar Filing: SURREY BANCORP - Form 10QSB

(Issuer s telephone number)

#### 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 x No "

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practical date:

On May 5, 2006 there were 1,471,252 common shares issued and outstanding

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

#### PART I FINANCIAL INFORMATION

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#### **Consolidated Balance Sheets**

March 31, 2006 (Unaudited) and December 31, 2005 (Audited)

Cash and due from banks   \$ 1,687,939   \$ 1,789,131     Interest-bearing deposits with banks   6,126,531   20,515,582     Federal funds sold   405,000   5,04,000     Investment securities available for sale   3,128,133   4,129,223     Restricted equipment, net   1,43,788,080   142,285,041     Property and equipment, net   4,65,7086   4,007,952     Forcelosed assets   1,85,158   36,000     Accrued income   867,393   81,3667     Goodwill   22,068,126   2,740,420     Other assets   936,600   922,636     Total assets   \$ 1,052,131,260   \$ 1,079,0827     Liabilities and Stockholders   Equity   Liabilities and Stockholders   \$ 2,093,126     Noninterest-bearing   \$ 2,404,391   \$ 2,395,425   116,210,229   12,1902,246     Total deposits   140,254,160   145,855,671   143,856,891   143,855,671     Code posits   140,254,160   145,855,671   162,310,041   145,855,671     Total deposits   140,254,160   145,855,671   30,680   312,869     Dividends payable on prefered stock   29,414		March 2006	December 2005
Interest-bearing deposits with banks   16,126,531   20,515,582     Federal funds sold   405,500   504,000     Investment securities available for sale   3,128,133   41,292,233     Restricted equity securities   1,051,230   1,007,130     Lanas, net of allowance for loan losses of \$2,365,716 in 2006 and \$2,311,298 in 2005   143,788,080   44,007,952     Foreclosed assets   185,158   36,045   4,007,952     Foreclosed assets   185,168   36,000   120,000   120,000     Bank owned life insurance   2,768,126   2,740,420   2,740,420     Deposits:   5   175,631,366   \$ 179,570,827     Total assets   \$ 175,631,366   \$ 179,570,827     Labilities   Deposits:   \$   116,210,229   121,902,246     Total asset   \$ 175,631,366   \$ 179,570,827   \$   121,902,246     Total deposits   140,254,160   145,855,671   140,254,160   145,855,671     Federal funds purchased and securities sold under agreements to repurchase   890,000   121,902,246     Total deposits   14,493,326   14,494,325   114,548,55,671     Federal funds purchased	Assets	*	* . = 0.0
Federal funds Sold   405,000   504,000     Investment securities available for sale   3.128,133   4.129,223     Restricted equity securities   1.051,230   1.007,130     Loans, net of allowance for loan losses of \$2,365,716 in 2006 and \$2,311,298 in 2005   143,788,080   142,388,041     Property and equipment, net   4.567,086   4.607,952     Foreclosed assets   185,158   36,045     Accumed income   867,393   813,667     Goodwill   120,000   120,000   120,000     Bank owned life insurance   2,768,126   2,740,420     Other assets   \$ 175,631,366   \$ 179,570,827 <b>Liabilities</b> 2   2,404,3931   \$ 23,953,425     Noninterest-bearing   \$ 24,043,931   \$ 23,953,425   121,902,4246     Total assets   \$ 24,043,931   \$ 23,953,425   121,902,4246     Total deposits   140,254,160   145,855,671   142,983,326   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,4353   149,43535			
Investment securities available for sale   3,128,133   4,129,223     Restricted equity securities   1,051,230   1,007,130     Lans, net of allowance for loan losses of \$2,365,716 in 2006 and \$2,311,298 in 2005   143,788,080   142,885,041     Property and equipment, net   4,567,086   4,607,952     Foreclosed assets   185,155   56,045     Accured income   867,393   813,667     Goodwill   120,000   120,000     Bank owned life insurance   2,768,125   2,740,420     Other assets   \$ 175,631,366   \$ 179,570,827     Liabilities   5   2,404,3931   \$ 2,3,953,425     Interest-bearing   116,210,229   121,902,246     Total deposits   140,254,160   145,855,671     Federal funds purchased and securities sold under agreements to repurchase   869,369   1,157,917     Short-term debt   800,000   120,000   120,000     Order liabilities   144,943,325   144,945,25   144,943,325   144,945,25     Dividends payable on preferred stock   29,414   30,068   350,023   32,2869     Other liabilities   197,724,514   162,310,041			
Restricted equity securities     1.051,230     1.007,130       Loans, net of allowance for loan losses of \$2,365,716 in 2006 and \$2,311,298 in 2005     143,788,080     142,385,081       Propery and equipment, net     4.567,086     4.607,952       Foreclosed assets     185,158     36,045       Accrued income     867,330     813,667       Goodwill     120,000     120,000       Bank owned life insurance     2,768,126     2,740,420       Other assets     \$175,631,366     \$179,570,827       Liabilities and Stockholders     Equity     Liabilities       Deposits:     Noninterest-bearing     \$16,210,229     \$23,953,425       Interest-bearing     \$162,102,299     \$121,902,246     145,855,671       Federal funds purchased and securities sold under agreements to repurchase     869,369     1,157,917       Short-term debt     800,000     144,943,350     144,945,355       Dividends payable on preferred stock     29,414     30,068       Accrued interest payable     399,0023     312,869       Other liabilities     197,724,514     162,310,041       Commit dets, 1,000,000 shares authorized			
Loans, net of allowance for loan losses of \$2,365,716 in 2006 and \$2,311,298 in 2005   143,788,080   142,385,080     Property and equipment, net   4,567,086   4,607,952     Foreclosed assets   185,158   36,045     Accured income   867,393   813,667     Goodwill   120,000   120,000     Bank owned life insurance   2,768,126   2,740,420     Other assets   \$ 175,631,366   \$ 179,570,827     Liabilities and Stockholders   Equity   2     Liabilities   Deposits:   \$     Noninterest-bearing   \$ 24,043,931   \$ 23,053,425     Interest-bearing   116,210,229   121,900,246     Total deposits   140,254,160   145,855,671     Total deposits   140,254,160   145,855,671     Total deposits   140,254,160   145,855,671     Stort-bearing   140,254,160   145,855,671     Total deposits   140,254,160   145,855,671     Cong-term debt   140,325   14,494,525     Dividends payable on preferred stock   29,414   30,068     Other liabilities   157,724,514   162,310,041			
Property and equipment, net   4,607,985   4,607,952     Foreclosed assets   185,158   36,045     Accrued income   867,393   813,667     Goodwill   120,000   120,000     Bank owned life insurance   2,768,126   2,740,420     Other assets   936,690   922,636     Total assets   \$ 175,631,366   \$ 179,570,827     Liabilities and Stockholders   Equity   Liabilities   \$ 23,953,425     Interest-bearing   \$ 24,043,931   \$ 23,953,425   \$ 23,953,425     Interest-bearing   116,210,229   121,902,246     Total deposits   140,254,160   145,855,671     Federal funds purchased and securities sold under agreements to repurchase   869,369   1,157,917     Short-term debt   140,254,160   144,93,326   1,449,326   1,449,326     Dividends payable on preferred stock   29,414   30,068   Accrued interest payable   359,023   312,869     Other liabilities   157,724,514   162,310,041   162,310,041   Commitments and contingencies   2,620,325   2,620,325   2,620,325   2,620,325   2,620,325   2,620,325   2,620,325 </td <td></td> <td></td> <td></td>			
Foreclosed assets     185,158     36.045       Accrued income     867,393     813,667       Goodwill     120,000     120,000       Bank owned life insurance     2,768,126     2,740,420       Other assets     936,690     922,636       Total assets     \$ 175,631,366     \$ 179,570,827       Liabilities     Deposits			
Accrued income   867,393   813.667,393     Goodwill   120,000   120,000     Bark owned life insurance   2,768,126   2,740,420     Other assets   936,690   922,636     Total assets   \$ 175,631,366   \$ 179,570,827     Liabilities and Stockholders   Equity   Liabilities     Deposits:   Total deposits   \$ 24,043,931   \$ 23,953,425     Noninterest-bearing   116,210,229   121,902,246     Total deposits   140,254,160   145,855,671     Federal funds purchased and securities sold under agreements to repurchase   869,369   1,157,917     Short-term debt   800,000   10,052,833   312,869     Other liabilities   919,222   458,991     Total deposits   157,724,514   162,310,041     Commitments and contingencies   157,724,514   162,310,041     Commitments and contingencies   2,620,325   2,620,325     Stockholders equity   2,620,325   2,620,325   2,620,325     Youtal hiabilities   157,724,514   162,310,041   162,310,041     Commitments and contingencies   2,620,325   2,620,325			
Goodwill     120,000     120,000       Bank owned life insurance     2,768,126     2,744,420       Other assets     936,690     922,636       Total assets     \$ 175,631,366     \$ 179,570,827       Liabilities and Stockholders     Equity     Liabilities       Deposits:			
Bank owned life insurance     2,768,126     2,740,420       Other assets     936,690     922,636       Total assets     \$ 175,631,366     \$ 179,570,827       Liabilities and Stockholders     Equity     5     24,043,931     \$ 23,953,425       Interest-bearing     \$ 24,043,931     \$ 23,953,425     5     23,953,425       Interest-bearing     116,210,229     121,902,246     121,902,246       Total deposits     140,254,160     145,855,671       Pederal funds purchased and securities sold under agreements to repurchase     869,369     1,157,917       Short-term debt     800,000     14,494,326     14,494,326       Dividends payable on prefered stock     29,414     30,068     359,023     312,869       Other liabilities     157,724,514     162,310,041     162,310,041     162,310,041       Commitments and contingencies     157,724,514     162,310,041     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,620,325     2,6			
Other assets     936,690     922,636       Total assets     \$ 175,631,366     \$ 179,570,827       Liabilities     Seposits     Seposits     Seposits       Noninterest-bearing     \$ 24,043,931     \$ 23,953,425       Interest-bearing     \$ 140,254,160     145,855,671       Federal funds purchased and securities sold under agreements to repurchase     869,369     1,157,917       Short-term debt     114,93,326     144,94,525       Dividends payable on preferred stock     29,414     30,068       Accrued interest payable     359,023     312,869       Other liabilities     919,222     488,991       Total liabilities     157,724,514     162,310,041       Commitments and contingencies     2,620,325     2,620,325       Stockholders equity     7,078,853     6,418,744       Preferred stock, 1,000,000 shares authorized, 189,356 shares of Series A, issued and outstanding with no par value, 4,570 convertible non-cumulative, expertual; with a liquidation value of \$14 per share     2,620,325     2,620,325       Common stock, 5,000,000 shares authorized, 189,356 shares of Series A, issued and outstanding with no par value, 4,570 convertible non-cumulative, experpetual; with a liquidation value of \$14 per share     <		,	
Total assets   \$ 175,631,360   \$ 179,570,827     Liabilities and Stockholders   Equity     Liabilities      Deposits:      Noninterest-bearing   \$ 24,043,931   \$ 23,953,425     Interest-bearing   116,210,229   121,902,246     Total deposits   140,254,160   145,855,671     Federal funds purchased and securities sold under agreements to repurchase   869,369   1,157,917     Short-tern debt   14,493,326   14,494,525     Dividends payable on preferred stock   29,414   30,068     Accrued interest payable   29,414   30,068     Accrued interest payable   157,724,514   162,310,041     Commitments and contingencies   157,724,514   162,310,041     Commitments and contingencies   2,620,325   2,620,325     Storkolders   2,620,325   2,620,325   2,620,325     Common stock, 5,000,000 shares authorized, 189,356 shares of Series A, issued and outstanding with no par value, 4,58,53   6,418,744     Accumulated other comprehensive income (loss)   8,220,261   8,236,917     Retained gamings   7,078,853   6,418,744     Accumulated other comprehensive			
Liabilities and Stockholders Equity     Liabilities     Deposits:     Noninterest-bearing   \$ 24,043,931     Interest-bearing   \$ 23,953,425     Interest-bearing   116,210,229     Total deposits   140,254,160     Total deposits   140,254,160     Total deposits   140,254,160     Total deposits   140,254,160     Total deposits   144,93,26     Long-term debt   800,000     Long-term debt   14,493,326     Dividends payable on preferred stock   29,414     Accrued interest payable   359,023     Other liabilities   919,222     458,991   157,724,514     Total liabilities   157,724,514     Commitments and contingencies   124,2310,041     Commitments and contingencies   5     Stockholders equity   7,078,853     Prefered stock, 1,000,000 shares authorized, 189,356 shares of Series A, issued and outstanding with no parvalue, 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; 1,471,252 shares issued in 2006 and 1,472,094 <td< td=""><td>Other assets</td><td>936,690</td><td>922,636</td></td<>	Other assets	936,690	922,636
LiabilitiesDeposits:Noninterest-bearing\$ 24,043,931\$ 23,953,425Interest-bearing116,210,229121,902,246Total deposits140,254,160145,855,671Federal funds purchased and securities sold under agreements to repurchase869,3691,157,917Short-term debt800,000100,000Long-term debt14,493,32614,494,525Dividends payable on preferred stock29,41430,068Accrued interest payable359,023312,869Other liabilities157,724,514162,310,041Commitments and contingencies157,724,514162,310,041Stockholders equityPreferred 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 share2,620,3252,620,325Commit neuts and contingencies8,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Total assets	\$ 175,631,366	\$ 179,570,827
Deposits:Noninterest-bearing\$ 24,043,931\$ 23,953,425Interest-bearing116,210,229121,902,246Total deposits140,254,160145,855,671Federal funds purchased and securities sold under agreements to repurchase869,3691,157,917Short-term debt800,00014,493,32614,494,525Long-term debt29,41430,068Accrued interest payable359,023312,869Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingencies514 per share2,620,325Stockholders equity2,620,3252,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,0948,220,261Shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Liabilities and Stockholders Equity		
Noninterest-bearing     \$ 24,043,931     \$ 23,953,425       Interest-bearing     116,210,229     121,902,246       Total deposits     140,254,160     145,855,671       Federal funds purchased and securities sold under agreements to repurchase     869,369     1,157,917       Short-term debt     800,000     14,493,326     14,494,525       Dividends payable on preferred stock     29,414     30,068       Accrued interest payable     359,023     312,869       Other liabilities     919,222     458,991       Total liabilities     157,724,514     162,310,041       Commitments and contingencies     2,620,325     2,620,325       Stockholders equity     2,620,325     2,620,325     2,620,325       Stockholders equity     8,220,261     8,236,917       Retained earnings     7,078,853     6,418,744       Accumulated other comprehensive income (loss)     (12,587)     (15,200)	Liabilities		
Interest-bearing116,210,229121,902,246Total deposits140,254,160145,855,671Federal funds purchased and securities sold under agreements to repurchase869,3691,157,917Short-term debt800,00014,493,32614,494,525Long-term debt14,493,32614,494,525Dividends payable on prefered stock29,41430,068Accrued interest payable359,023312,869Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingencies157,724,514162,310,041Commitments and contingencies2,620,3252,620,325Stockholders equity22,620,3252,620,325Preferred 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 Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,0948,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,78617,260,78617,260,786	Deposits:		
Total deposits140,254,160145,855,671Federal funds purchased and securities sold under agreements to repurchase869,3691,157,917Short-term debt800,000800,000Long-term debt14,493,32614,494,525Dividends payable on preferred stock29,41430,068Accrued interest payable359,023312,869Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingencies5000014,72,094Stockholders equity2,620,3252,620,325Commo stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,0948,220,261shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Noninterest-bearing	\$ 24,043,931	\$ 23,953,425
Federal funds purchased and securities sold under agreements to repurchase869,3691,157,917Short-term debt800,000Long-term debt14,493,326Long-term debt14,493,326Dividends payable on preferred stock29,41430,068359,023Accrued interest payable359,023Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingenciesStockholders equityPreferred 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 2,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 2005Retained earnings7,078,853Accumulated other comprehensive income (loss)(12,587)Total stockholders equity17,906,85217,260,786	Interest-bearing	116,210,229	121,902,246
Federal funds purchased and securities sold under agreements to repurchase869,3691,157,917Short-term debt800,000Long-term debt14,493,326Long-term debt14,493,326Dividends payable on preferred stock29,41430,068359,023Accrued interest payable359,023Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingenciesStockholders equityPreferred 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 2,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 2005Retained earnings7,078,853Accumulated other comprehensive income (loss)(12,587)Total stockholders equity17,906,85217,260,786			
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Long-term debt14,493,32614,494,525Dividends payable on preferred stock29,41430,068Accrued interest payable359,023312,869Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingencies500,000 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 share2,620,3252,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,78617,260,786	Federal funds purchased and securities sold under agreements to repurchase	869,369	1,157,917
Dividends payable on preferred stock29,41430,068Accrued interest payable359,023312,869Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingencies55Stockholders equity7Preferred 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 share2,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,261Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Short-term debt	800,000	
Accrued interest payable359,023312,869Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingencies157,724,514162,310,041Stockholders equityPreferred 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 share2,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Long-term debt	14,493,326	14,494,525
Other liabilities919,222458,991Total liabilities157,724,514162,310,041Commitments and contingencies157,724,514162,310,041Stockholders equityPreferred 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 share2,620,3252,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Dividends payable on preferred stock	29,414	30,068
Total liabilities157,724,514162,310,041Commitments and contingenciesStockholders equityPreferred 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 share2,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,261Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Accrued interest payable	359,023	312,869
Commitments and contingenciesStockholders equityPreferred 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 share2,620,3252,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Other liabilities	919,222	458,991
Commitments and contingenciesStockholders equityPreferred 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 share2,620,3252,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786			
StockholdersequityPreferred 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 share2,620,3252,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholdersequity17,906,85217,260,786	Total liabilities	157,724,514	162,310,041
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 share2,620,3252,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094 shares issued in 20058,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786	Commitments and contingencies		
value, 4.5% convertible non-cumulative, perpetual; with a liquidation value of \$14 per share2,620,3252,620,325Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,0948,220,2618,236,917Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786			
Common stock, 5,000,000 shares authorized at no par value; 1,471,252 shares issued in 2006 and 1,472,094shares issued in 20058,220,261Retained earnings7,078,853Accumulated other comprehensive income (loss)(12,587)Total stockholders equity17,906,85217,260,786			
shares issued in 2005 8,220,261 8,236,917   Retained earnings 7,078,853 6,418,744   Accumulated other comprehensive income (loss) (12,587) (15,200)   Total stockholders equity 17,906,852 17,260,786		2,620,325	2,620,325
Retained earnings7,078,8536,418,744Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786			
Accumulated other comprehensive income (loss)(12,587)(15,200)Total stockholders equity17,906,85217,260,786			
Total stockholders equity 17,906,852 17,260,786			
	Accumulated other comprehensive income (loss)	(12,587)	(15,200)
Total liabilities and stockholdersequity\$ 175,631,366\$ 179,570,827	Total stockholders equity	17,906,852	17,260,786
	Total liabilities and stockholders equity	\$ 175,631,366	\$ 179,570,827

See Notes to Consolidated Financial Statements

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#### **Consolidated Statements of Income**

Three months ended March 31, 2006 and 2005 (Unaudited)

	2006	2005
Interest income		
Loans and fees on loans	\$ 2,902,872	\$ 2,254,317
Federal funds sold	4,390	2,179
Investment securities, taxable	42,516	26,387
Deposits with banks	177,216	60,117
Total interest income	3,126,994	2,343,000
Interest expense		
Deposits	983,771	650,262
Federal funds purchased		664
Securities sold under agreements to repurchase	7,431	2,110
Short-term debt	7,369	
Long-term debt	145,166	109,346
	1 1 4 2 7 2 7	7(0.290
Total interest expense	1,143,737	762,382
Net interest income	1,983,257	1,580,618
Provision for loan losses	82,839	120,006
Net interest income after provision for loan losses	1,900,418	1,460,612
Noninterest income		
Service charges on deposit accounts	243,235	224,527
Net gain on sale of mortgage loans	20,416	24,597
Gain on sale of government guaranteed loans	27,588	
Fees on mortgage loans delivered to correspondents	24,480	27,996
Foreclosed assets, net	1,925	
Other service charges and fees	46,000	83,992
Other operating income	162,489	101,297
Total noninterest income	526,133	462,409
	520,155	102,109
Noninterest expense	605 576	626 440
Salaries and employee benefits Occupancy expense	695,576 93,251	636,449 85,763
Equipment expense	79,809	89,961
Data processing	73,558	87,633
Other expense	396,195	379,182
	570,175	579,102
Total noninterest expense	1,338,389	1,278,988
Net income before income taxes	1,088,162	644,033
Income tax expense	398,639	248,024
Net income	689,523	396,009
Preferred stock dividends declared	(20, 414)	(20, 415)
r rejerreu slock alvaenas aecarea	(29,414)	(29,415)

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Net income available to common shareholders	\$	660,109	\$	366,594
Basic earnings per share	\$	0.45	\$	0.25
Diluted earnings per share	\$	0.39	\$	0.22
Basic weighted average shares outstanding	1	,472,085	1,	453,362
Diluted weighted average shares outstanding	1	,762,946	1,	769,679

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See Notes to Consolidated Financial Statements

#### **Consolidated Statements of Cash Flows**

Three months ended March 31, 2006 and 2005 (Unaudited)

	2006	2005
Cash flows from operating activities	¢ (00 <b>500</b>	¢ 206 000
Net income	\$ 689,523	\$ 396,009
Adjustments to reconcile net income to net cash provided by operations:	82.522	02.27(
Depreciation and amortization	82,522	83,276
Stock-based compensation	2,976	120.000
Provision for loan losses	82,839	120,006
Deferred income taxes	(8,464)	(2,576)
Accretion of discount on securities, net of amortization of premiums	(12,603)	(7,119)
Increase in cash surrender value of life insurance	(27,706)	(9,149)
Changes in assets and liabilities:	(52.70()	(120.219)
Accrued income	(53,726)	(139,218)
Other assets	(7,229)	65,403
Accrued interest payable	46,154	91,178
Other liabilities	460,231	113,384
Net cash provided by operating activities	1,254,517	711,194
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits with banks	4,389,051	(101,622)
Net (increase) decrease in federal funds sold	99,000	(200,000)
Purchases of investment securities	(989,375)	(1,989,666)
Sales and maturities of investment securities	2,007,320	1,516,359
Purchases of restricted equity securities	(44,100)	(117,470)
Net increase in loans	(1,634,991)	(5,527,356)
Purchases of property and equipment	(41,656)	(156,918)
Purchase of bank owned life insurance		(2,650,000)
Net cash provided by (used in) investing activities	3,785,249	(9,226,673)
Cash flows from financing activities		
Net increase (decrease) in deposits	(5,601,511)	10,917,138
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(288,548)	(2,851,765)
Net increase in short-term debt	800,000	
Net increase (decrease) in long-term debt	(1,199)	998,893
Dividends paid on preferred stock	(30,068)	(29,987)
Common stock options exercised		3,900
Fractional shares purchased	(19,632)	
Net cash provided by (used in) financing activities	(5,140,958)	9,038,179
Net increase (decrease) in cash and cash equivalents	(101,192)	522,700
Cash and cash equivalents, beginning	1,789,131	1,810,543
Cash and cash equivalents, ending	\$ 1,687,939	\$ 2,333,243
Supplemental disclosures of cash flow information		
Interest paid	\$ 1,097,583	\$ 671,204

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Taxes paid	\$ 8,790	\$ 32,074
Loans transferred to foreclosed properties	\$ 149,113	\$
See Notes to Consolidated Financial Statements		

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Consolidated Statements of Stockholders Equity

Three months ended March 31, 2006 and 2005 (Unaudited)

	Prefe	rred Stock	Comm	on Stock		U Ap		
	a		a		Retained		preciation) On	
	Shares	Amount	Shares	Amount	Earnings	S	ecurities	Total
Balance, January 1, 2005	189,356	\$ 2,620,325	1,211,008	\$ 8,100,261	\$ 4,337,224	\$	(12,389)	\$ 15,045,421
Comments in some								

**Comprehensive income**