

SURREY BANCORP
Form DEF 14A
April 18, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to Section 240.14a-12

SURREY BANCORP
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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(2) Form, Schedule or Registration Statement No: _____

(3) Filing Party: _____

(4) Date Filed: _____



Surrey Bancorp
145 North Renfro Street
Mount Airy, North Carolina 27030
(336) 783-3900

Robert H. Moody Edward C. Ashby, III
Chairman President

Dear Fellow Shareholders:

Accompanying this letter is a proxy package from Surrey Bancorp (the “Company”). In addition to voting to elect directors and ratify the appointment of our independent registered accounting firm, you are being asked to vote to amend the Company’s Articles of Incorporation. The amendment is necessary to allow the Company to realize substantial expense savings by de-registering its Common Stock with the Securities and Exchange Commission (“SEC”) in a transaction made possible via the passage of the Jumpstart Our Businesses Startups Act (“JOBS Act”).

The JOBS Act included a provision that increases the number of shareholders of record a corporation may have without being required to register with the SEC. The Company is currently registered with the SEC. As an SEC registrant, it must meet many of the same audit and reporting requirements as the largest corporations in the nation. In order to realize the savings made possible by the JOBS Act, which we estimate to be approximately \$170,000 per year, the Company must reduce the number of common shareholders of record to less than 1,200. To accomplish this goal, the Board of Directors is proposing that a portion of the shares of Company’s Common Stock be reclassified from Common Stock to Class A Common Stock or repurchased for \$12.75 per share, at the election of the relevant shareholders. The shares proposed to be reclassified or repurchased will be those held by shareholders having less than 300 shares on the date that we consummate this reclassification. (The shares reclassified as Class A Common Stock will comprise less than 2.9% of the total shares of Common Stock currently outstanding.) A primary difference between the Common Stock and the Class A Common Stock will be that Class A Common Stock will have limited voting rights. Additionally, holders of Class A Common Stock will receive a premium on all dividends declared on the Common Stock of \$0.03 per share.

With shareholder approval of the recommended amendment (which is described in more detail in the attached Proxy Statement), the Company will be eligible to begin a process to deregister with the SEC. As a non-registered company, the financial information available will not contain the same detail as that of an SEC registrant. However, all shareholders will continue to receive an annually audited financial statement and you will receive a quarterly financial summary in addition to the quarterly shareholder’s letter you now receive.

While it is not possible to provide all of the pros and cons of deregistration in this introductory letter, our Board of Directors has reviewed both the positive and negative attributes of the stock reclassification and SEC deregistration, and those are summarized thoroughly in the attached Proxy Statement. The Board has determined that it is in the Company’s best interest to approve the amendment so that the financial benefits provided by the JOBS Act will be available to the Company.

We encourage you to carefully review the proxy package accompanying this letter and urge you to promptly complete and return the proxy card included with your package. If you are a record shareholder you may also vote your shares over the Internet. If you should have any questions about the Proxy Statement or the reclassification transaction, please call us at (336) 783-3900.

Thank you for your continued support of Surrey Bancorp and Surrey Bank & Trust.

Sincerely,

/s/ Robert H. Moody /s/ Edward C. Ashby, III
Robert H. Moody Edward C. Ashby, III
Chairman President

Notice to holders of shares of Preferred Stock: Holders of shares of the Company's Preferred Stock are not entitled to vote on any of the proposals to be voted on at the Annual Meeting. The proxy package is being provided to you for information purposes only.

SURREY BANCORP
145 North Renfro Street
Mount Airy, North Carolina 27030

A LETTER TO OUR SHAREHOLDERS

April 15, 2016

Dear Fellow Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Surrey Bancorp (the “Company”) to be held at 10:00 a.m., local time, on May 27, 2016, at the Cross Creek Country Club, 1129 Greenhill Road, Mount Airy, North Carolina.

At this important meeting, you will be asked to vote on the following matters:

1. To approve an amendment to our Articles of Incorporation (the “Amendment”) to provide for the authorization of a new class of capital stock, Class A Common Stock, to reclassify certain of our shares of Common Stock as Class A Common Stock or to repurchase such shares for \$12.75 per share, at the election of the relevant shareholders, for the purpose of discontinuing the registration of our Common Stock under the Securities Exchange Act of 1934, as amended (the “Reclassification”);
2. To elect seven directors to serve a one year term until the Annual Meeting of Shareholders in 2017 or until their successors shall have been elected and qualified;
3. To ratify the appointment of Elliott Davis Decosimo, PLLC as our Company’s independent registered accounting firm for the year ending December 31, 2016;
4. To grant to the proxy holders discretionary authority to vote to adjourn the Annual Meeting, if necessary or appropriate, in order to solicit additional proxies in favor of any of the proposals; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Pursuant to the proposed Amendment to authorize a new class of capital stock, shares of our existing Common Stock held by shareholders who own less than 300 shares will be reclassified as shares of Class A Common Stock or repurchased at a price of \$12.75 per share, at the election of each individual shareholder holding less than 300 shares. Shares of our Common Stock held by shareholders who own 300 shares or more will not be impacted by this proposal. The Reclassification will be made on the basis of one share of Class A Common Stock for each share of Common Stock held on the date of the Reclassification. In the alternative, shareholders holding less than 300 shares of Common Stock may elect to receive \$12.75 per share for their shares of Common Stock rather than having those shares reclassified as shares of Class A Common Stock. The purpose of the Amendment and the Reclassification is to discontinue the registration of our Common Stock under the Securities Exchange Act of 1934, as amended, and to cease to be a “public” company.

If approved at the Annual Meeting, the Amendment and Reclassification will affect you as follows:

If, on the date of
the

Reclassification, Effect:

you are a

shareholder with:

300 or more shares of Common Stock: You will continue to hold the same number of shares of Common Stock and your voting and dividend rights will be unchanged.

Less than 300

shares of Common
Stock:

You will no longer hold shares of Common Stock, but, rather, will either hold a number of shares of Class A Common Stock equal to the same number of shares of Common Stock that you held before the Reclassification or receive \$12.75 per share for your shares of Common Stock, at your election. Holders of shares of Class A Common Stock will not have any voting rights, unless otherwise required by law. Under North Carolina law, holders of Class A Common Stock will generally be entitled to vote as a separate voting group on proposals that will affect the Class A Common Stock, including transactions that will result in a change of control of the Company by merger, share exchange or otherwise. Holders of shares of Class A Common Stock be entitled to a premium on any dividends we pay on the Common Stock of \$0.03 per share (for example, if a dividend of \$0.10 per share is declared on the Common Stock, a dividend of \$0.13 per share must be declared on the Class A Common Stock).

If you have transferred your shares of our Common Stock into a brokerage or custodial account, you are no longer shown on our shareholder records as the record holder of these shares. Instead, the brokerage firms or custodians typically hold all shares of our Common Stock that their clients have deposited with them through a single nominee; this is what is meant by "street name." If that single nominee is the record shareholder for 300 or more shares, then the shares registered in that nominee's name will be completely unaffected by the Reclassification.

Our smaller shareholders who believe neither the one-for-one exchange ratio of their shares of Common Stock into Class A Common Stock nor \$12.75 per share is acceptable or fair to them, or otherwise prefer to remain holders of Common Stock after the Reclassification, may elect to do so by (i) acquiring a sufficient number of shares so that they hold of record at least 300 shares of Common Stock immediately prior to the Reclassification or (ii) transferring their shares into a brokerage or custodial account that holds the shares through a single nominee that holds of record at least 300 shares of Common Stock immediately prior to the Reclassification.

The primary effect of the Reclassification will be to reduce our total number of record holders of Common Stock to below 1,200. As a result, we will terminate the registration of our Common Stock under the federal securities laws and will no longer be considered a "public" company. This transaction is known as a Rule 13e-3 "going private" transaction under the Securities Exchange Act of 1934, as amended.

We are proposing the Amendment and Reclassification because our Board of Directors has concluded, after careful consideration, that the costs and other disadvantages associated with being a reporting company with the Securities and Exchange Commission ("SEC"), outweigh any advantages.

Set forth below are what our Board believes to be the disadvantages and advantages of remaining a public reporting company:

Disadvantages of Remaining Public

- It is an administrative burden on our management to continue making required filings with the SEC;
- the cost to us of making required filings with the SEC is significant, including the requirement that portions of our annual and quarterly filings with the SEC be tagged in Extensible Business Reporting Language (“XBRL”) format;
- the cost of complying with Section 404 of the Sarbanes-Oxley Act, including the requirement that our independent registered public accounting firm audit our internal control over financial reporting, is similarly high;
- our legal and accounting costs will be significantly higher if we remain a public reporting company; and
 - we have not needed or realized many of the benefits normally associated with being a public reporting company, such as access to capital markets and an active trading market for our shares of Common Stock.

Advantages of Remaining Public

- Our shareholders will have more convenient access to more analytical information regarding our financial performance;
- our shareholders will have more convenient access to detailed information regarding the compensation we pay to our directors and executive officers and the changes in beneficial ownership of our Common Stock owned by our directors and officers;
- we will not incur the costs of this “going private” transaction, which we expect to be approximately \$70,000;
- if we needed to raise additional capital through the issuance of Common Stock, it might be easier to do so if we were a public reporting company; and
- if we were to acquire another bank, being a public reporting company might enhance our ability to use our Common Stock as consideration.

In reaching the conclusion to recommend that our shareholders approve the Reclassification, our Board of Directors considered the following:

- the ongoing administrative burden and expense of making our periodic filings with the SEC;
- the fact that operating as a non-SEC reporting company will reduce the burden on our management and employees which arises from monitoring and complying with increasingly complex SEC reporting requirements, thus allowing management to focus more of its attention on our customers and the community in which we operate;
- the very limited trading volume of our Common Stock and the resulting lack of an active market for our shareholders;
- the fact that a “going private” transaction could be structured in a manner whereby all of our shareholders may retain an equity interest in our Company, and would not be forced out by means of a cash reverse stock split or other transaction;
- the estimated expense of a “going private” transaction;

the fact that the Reclassification allows us to discontinue our reporting obligations with the SEC, while still allowing those shareholders receiving shares of Class A Common Stock to retain an equity interest in our Company with what the Board believes is approximately the same value per share as holders of Common Stock;

the fact that our earnings have historically been sufficient to support our growth without the need to raise capital through the capital markets; and

the fact that our holding company structure now allows us to raise additional capital for our bank subsidiary through borrowing money at the holding company level, which would not dilute the ownership interest of our shareholders.

Except for the effects described in the accompanying Proxy Statement, we do not expect the Reclassification to adversely affect our operations.

In the event the proposal to approve the Amendment and to effect the Reclassification is approved and you elect to have your shares of Common Stock reclassified as shares of Class A Common Stock:

you will receive no additional consideration for your shares of Common Stock when they are reclassified as shares of Class A Common Stock;

you will hold shares that may be less liquid than the shares you currently hold since there is no existing market for the Class A Common Stock, and the Class A Common Stock will have fewer record holders than currently hold Common Stock; however we intend to maintain lists of willing sellers and buyers of Class A Common Stock, just as we currently do for our Common Stock;

you will receive a security with limited voting rights. Under North Carolina law, holders of Class A Common Stock will generally be entitled to vote as a separate voting group on proposals that will affect the Class A Common Stock, including transactions that will result in a change of control of the Company by merger, share exchange or otherwise;

holders of our Common Stock will not be entitled to receive dividends unless dividends are paid on our shares of Class A Common Stock; and

all of our shareholders will lose the benefits of holding securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, including the ongoing shareholder disclosures required thereby.

In the event you elect to have your shares repurchased for \$12.75 per share, you will cease to be a shareholder of the Company with respect to those shares.

Our Board of Directors believes the terms of the Amendment and the Reclassification are procedurally and substantively fair to our shareholders, including our affiliated and unaffiliated shareholders, whether you will retain your existing shares of Common Stock or receive either shares of Class A Common Stock or \$12.75 per share for your shares of Common Stock, and are in the best interest of our shareholders. The Board of Directors unanimously recommends that you vote FOR the proposal to approve the Amendment and effect the Reclassification. We encourage you to read carefully the Proxy Statement and attached appendices.

It is important that your shares of Common Stock are represented at the Annual Meeting, whether or not you attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card. If you are a record shareholder you may also vote your shares over the Internet. If you attend the Annual Meeting, you may vote in person even if you have previously mailed a proxy card or voted over the Internet.

On behalf of our Board of Directors, we would like to express our appreciation for your continued support of the Company.

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Sincerely,

Surrey Bancorp

/s/ Robert H. Moody /s/ Edward C. Ashby, III

Robert H. Moody Edward C. Ashby, III

Chairman President

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE AMENDMENT OR THE RECLASSIFICATION, PASSED UPON THE MERITS OR FAIRNESS OF THE AMENDMENT OR THE RECLASSIFICATION OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Notice to holders of shares of Preferred Stock: Holders of shares of the Company's Preferred Stock are not entitled to vote on any of the proposals to be voted on at the Annual Meeting. The proxy package is being provided to you for information purposes only.

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SURREY BANCORP
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the Annual Meeting of Shareholders of Surrey Bancorp (the “Company”) will be held at 10:00 a.m. local time, on May 27, 2016, at the Cross Creek Country Club, 1129 Greenhill Road, Mount Airy, North Carolina, for the following purposes:

1. To approve an amendment to our Articles of Incorporation (the “Amendment”) to provide for the authorization of a new class of capital stock, Class A Common Stock, to reclassify certain of our shares of Common Stock as Class A Common Stock or to repurchase such shares for \$12.75 per share, at the election of the relevant shareholders, for the purpose of discontinuing the registration of our Common Stock under the Securities Exchange Act of 1934, as amended (the “Reclassification”);
2. To elect seven directors to serve a one year term until the Annual Meeting of Shareholders in 2017 or until their successors shall have been elected and qualified;
3. To ratify the appointment of Elliott Davis Decosimo, PLLC as our Company’s independent registered accounting firm for the year ending December 31, 2016;
4. To grant to the proxy holders discretionary authority to vote to adjourn the Annual Meeting, if necessary or appropriate, in order to solicit additional proxies in favor of any of the proposals; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Any action may be taken on the foregoing proposals at the Annual Meeting on the date specified above or on any date or dates to which, by original or later adjournment, the Annual Meeting may be adjourned. Shareholders of record at the close of business on March 18, 2016 are entitled to notice of and to vote at the Annual Meeting and any adjournments thereof.

You are requested to complete and sign the enclosed form of proxy, which is solicited by the Board of Directors, and to mail it promptly in the enclosed postage-paid envelope. If you attend the Annual Meeting and wish to vote in person you may revoke your proxy at that time and vote by ballot.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on May 27, 2016: the Proxy Statement, form of proxy and annual report to shareholders are available at <https://www.iproxydirect.com/SRYB>.

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Our Board of Directors recommends that you vote FOR the approval of Proposals 1, 3 and 4 and FOR the election of the seven nominees as directors.

By Order of the Board of Directors

/s/ Robert H. Moody
Robert H. Moody, Chairman

Mount Airy, North Carolina
April 15, 2016

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO ENSURE A QUORUM. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

Notice to holders of shares of Preferred Stock: Holders of shares of the Company's Preferred Stock are not entitled to vote on any of the proposals to be voted on at the Annual Meeting. The proxy package is being provided to you for information purposes only.

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SURREY BANCORP
ANNUAL MEETING OF SHAREHOLDERS

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SURREY BANCORP

145 North Renfro Street

Mount Airy, North Carolina 27030

Telephone: (336) 783-3900

PROXY STATEMENT

FOR ANNUAL MEETING OF SHAREHOLDERS

To Be Held on May 27, 2016

Your vote is very important. For this reason, the Board of Directors is requesting that if you are not able to attend the Annual Meeting of Shareholders, you allow your Common Stock to be represented at the meeting by the proxies named in the enclosed proxy card. This Proxy Statement and the form of proxy was first mailed to all of our shareholders on or about April 21, 2016.

Surrey Bancorp is the bank holding company for Surrey Bank & Trust headquartered in Mount Airy, North Carolina. We have tried to make this Proxy Statement simple and easy to understand. The Securities and Exchange Commission (the "SEC"), encourages companies to use "plain English" and we will always try to communicate with you clearly and effectively. We will refer to Surrey Bancorp throughout this Proxy Statement as "we," "us," the "Company," or "our Company," and we will refer to Surrey Bank & Trust as the "Bank" or our "bank subsidiary."

Purposes of Annual Meeting

The purpose of the Annual Meeting is to consider and act upon the following proposals:

1. To approve an amendment to our Articles of Incorporation (the "Amendment") to provide for the authorization of a new class of capital stock, Class A Common Stock, to reclassify certain of our shares of Common Stock as Class A Common Stock or to repurchase such shares for \$12.75 per share, at the election of the relevant shareholders, for the purpose of discontinuing the registration of our Common Stock under the Securities Exchange Act of 1934, as amended (the "Reclassification");
2. To elect seven directors to serve a one year term until the Annual Meeting of Shareholders in 2017 or until their successors shall have been elected and qualified;
3. To ratify the appointment of Elliott Davis Decosimo, PLLC as our Company's independent registered accounting firm for the year ending December 31, 2016;
4. To grant to the proxy holders discretionary authority to vote to adjourn the Annual Meeting, if necessary or appropriate, in order to solicit additional proxies in favor of any of the proposals; and
5. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Our Board of Directors will have the discretion to determine if and when to effect the Reclassification, and reserves the right to abandon the Reclassification even if the Amendment is approved by the shareholders. The Reclassification will become effective at the time set forth in the Amendment and after the filing of the Amendment to our Articles of Incorporation as of its filing with the North Carolina Secretary of State. The form of the Amendment is attached to this Proxy Statement as Appendix A.

We expect that if our shareholders approve and the Board elects to effect the Amendment, the Reclassification will be completed as soon as practicable after the Annual Meeting.

Shareholders are also being asked to consider and vote upon any other matters that may properly be submitted to a vote at the Annual Meeting or any adjournments thereof. Other than the matters listed on the attached Notice of Annual Meeting of Shareholders, our Board is not aware of any other business to be conducted at the Annual Meeting.

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Who Can Vote at the Annual Meeting?

Holders of record of Common Stock at the close of business on March 18, 2016 will be entitled to vote at the Annual Meeting (the "Record Date"). As of the Record Date, there were a total of 3,549,665 shares of Common Stock issued and outstanding. Each share of Common Stock entitles its owner to one vote on each matter calling for a vote of shareholders at the Annual Meeting. As of the Record Date, our executive officers and directors have the power to vote a total of 30.8% of the Company's issued and outstanding shares of Common Stock and they intend to vote all of those shares in favor of Proposals 1, 3 and 4 and in favor of the election of the seven nominees as directors.

As of the Record Date, there were a total of 189,356 shares of Series A Preferred Stock and 181,154 shares of Series D Preferred Stock (collectively, the "Preferred Stock") issued and outstanding, but none of the shares of Preferred Stock have voting rights at the Annual Meeting.

Voting and Revocation of Proxies

You may vote your shares in person by attending the Annual Meeting, or by mailing us your completed proxy if you are unable or do not wish to attend. If you are a record shareholder you may also vote your shares over the Internet. If the enclosed proxy is properly completed, signed, dated and returned, and not revoked, it will be voted in accordance with the instructions given. If a proxy is returned with no instructions given, the proxy will be voted **FOR** the proposal to adopt the Amendment as stated in this Proxy Statement, **FOR** the election of the seven nominees for election as directors, **FOR** the ratification of the appointment of Elliott Davis Decosimo, PLLC as the Company's independent registered accounting firm, and **FOR** the proposal to adjourn the Annual Meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposed Amendment and Reclassification. Execution of a proxy gives the designated proxies discretionary authority to vote the shares represented by the proxy in accordance with their best judgment on any other business, if any, that may properly come before the Annual Meeting or any adjournments thereof.

Brokerage houses and nominees have been requested to forward these proxy materials to the beneficial owners of shares held of record by such persons, and upon request, the Company will reimburse such persons for their reasonable out-of-pocket expenses in doing so.

You can change or revoke your proxy at any time before it is voted at the Annual Meeting by:

- delivering to our Secretary at our corporate offices on or before the business day prior to the Annual Meeting, a signed proxy card bearing a later date or a written revocation of the proxy;
- voting again over the Internet before 11:59 p.m. Eastern Time on May 26, 2016;
- delivering to us at the Annual Meeting but prior to the taking of the vote a signed proxy card dated a later date or a written revocation; or
- attending the Annual Meeting and voting in person.

If, however, you are a beneficial owner of shares of Common Stock that are not registered in your own name, you will need appropriate documentation from the holder of record of your shares to vote in person at the Annual Meeting.

Revoking a proxy will not affect the vote once it has been taken. Attendance at the Annual Meeting will not, in itself, constitute a revocation of a proxy. You must vote in person at the Annual Meeting if you wish to change a vote that you have previously made by submitting a signed proxy.

Vote Required for Approval

The presence, in person or by proxy, of the holders of at least a majority of our shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum. Because many of our shareholders cannot attend the Annual Meeting, it is necessary that a large number be represented by proxy. Accordingly, our Board of Directors has designated proxies to represent those shareholders who cannot be present in person and who desire to be so represented. In the event there are not sufficient shareholders present, in person or by proxy, to constitute a quorum or to approve or ratify any proposal at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

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Approval of the Amendment to our Articles of Incorporation which will implement the Reclassification requires the affirmative vote of a majority of the number of shares present and voting at the Annual Meeting.

The proposal to approve the Amendment is a “non-discretionary” item, meaning that brokerage firms cannot vote shares in their discretion on your behalf if you have not given the broker instructions to vote your shares held in “street” name. Accordingly, shares held in street name that have been designated by brokers on proxy cards as not voted with respect to that proposal (“broker non-vote shares”) will not be counted and will have no effect on the Amendment proposal. Broker non-votes will also not be counted for purposes of determining whether a quorum is present.

With respect to the election of directors, the seven nominees receiving the highest number of votes will be elected.

The ratification of the selection of Elliott Davis Decosimo, PLLC as our Company’s independent registered public accounting firm will be effective if a majority of the number of shares present and voting at the Annual Meeting vote for such ratification.

The proposal to adjourn the Annual Meeting, if necessary or appropriate, in order to solicit additional proxies in favor of any of the proposals will be effective if a majority of the number of shares present and voting at the Annual Meeting vote for such proposal.

Abstentions will be counted for purposes of determining whether a quorum is present at the Annual Meeting. However, like broker non-votes, abstentions will not be counted in tabulating the votes cast on any proposal submitted to the shareholders. As a result, abstentions will have no effect in the votes on the Amendment, on the election of directors, the ratification of our Company’s independent registered public accounting firm or the adjournment proposal.

As of the Record Date, the directors and executive officers of our Company have the power to vote a total of 1,093,843 (approximately 30.8%) of the outstanding shares of Common Stock entitled to vote at the Annual Meeting. These directors and executive officers currently intend to vote FOR the Amendment, FOR the election of the seven nominees described herein, FOR the ratification of our Company’s independent public accounting firm, and FOR the proposal to adjourn the Annual Meeting, if necessary or appropriate, to solicit additional proxies in favor of any of the proposals.

Holders of shares of our Preferred Stock, are not entitled to vote on any of the proposals to be voted on at the Annual Meeting.

Solicitation of Proxies

Our Company will pay the cost of preparing, assembling and mailing this Proxy Statement and other related proxy solicitation expenses, if any. Solicitation of proxies will be made initially by mail. Directors, officers and employees of our Company and our wholly-owned bank subsidiary also may solicit proxies in person, by telephone or other means without additional compensation. Our Board reserves the right to engage a proxy solicitor to assist the Board in the solicitation of proxies in connection with this Annual Meeting.

We are mailing this proxy material to our shareholders on or about April 21, 2016.

Authority to Adjourn Annual Meeting to Solicit Additional Proxies

Our Board of Directors is currently not aware of any business to be brought before the Annual Meeting other than that described in this Proxy Statement. However, if other matters are properly presented, the persons named as proxies will vote in accordance with their best judgment with respect to those matters. We are asking our shareholders to grant full

authority to adjourn the Annual Meeting to a later date to permit solicitation of additional proxies to approve the proposals described in this Proxy Statement.

Recommendation of Your Board of Directors

The Amendment and Reclassification have been unanimously approved by our Board of Directors. Your Board of Directors recommends a vote FOR adoption of the proposed Amendment to the Articles of Incorporation which will implement the Reclassification, FOR the election as directors of the seven nominees described herein, FOR the ratification of the selection of Elliott Davis Decosimo, PLLC as the Company's registered independent public accounting firm, and FOR the proposal to adjourn the Annual Meeting, if necessary or appropriate, to solicit additional proxies in favor of any of the proposals.

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QUESTIONS AND ANSWERS ABOUT AND SUMMARY TERMS OF THE RECLASSIFICATION

Q: What is the proposed Reclassification?

A: We are proposing that our shareholders approve the Amendment to our Articles of Incorporation in the form of Appendix A attached hereto which provides for the creation of a new class of capital stock, Class A Common Stock, and the reclassification of each share of Common Stock held by holders of less than 300 shares of Common Stock into a share of Class A Common Stock; provided, however, that holders of less than 300 shares of Common Stock may elect to receive \$12.75 for each share of Common Stock held by them rather than receiving shares of Class A Common Stock (the “Cash Election”).

Thus, for purposes of this Proxy Statement, when we refer to the term “Reclassification,” we are referring to the creation of Class A Common Stock, and the right of holders of less than 300 shares of Common Stock to receive, at their election either shares of Class A Common Stock on a one-for-one basis or \$12.75 per share for their shares of Common Stock.

Q: What is the purpose of the proposed Reclassification?

A: The purpose of the Reclassification is to allow us to terminate our SEC reporting obligations (referred to as “going private”) by reducing the number of our record shareholders of Common Stock to less than 1,200 and by having under 2,000 record shareholders of our Class A Common Stock. This will allow us to terminate our registration under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and relieve us of the substantial costs that we incur annually to prepare and file reports and other documents with the SEC. The Reclassification will also relieve us of the requirement to comply with many of the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder, compliance with which has been costly and a disruption to management.

Q: What will be the effects of the Reclassification?

A: The Reclassification is a “going private” transaction for our Company, meaning it will allow us to deregister with the SEC and we will no longer be subject to reporting obligations under federal securities laws. As a result of the Reclassification, among other things:

·the approximate number of our record shareholders holding shares of Common Stock will be 799;

·the approximate number of our record shareholders holding shares of Class A Common Stock will be less than 580 (with the actual number being determined by the number of holders of less than 300 shares of Common Stock who elect the Cash Election);

·because of the reduction of our total number of record shareholders of Common Stock to less than 1,200 and because the total number of record shareholders of the Class A Common Stock will be less than 2,000, we will be allowed to terminate our status as a reporting company with the SEC;

·the shares of Class A Common Stock and Common Stock will be freely tradable, but there may be less liquidity for these shares than there currently is for our Common Stock; however we intend to maintain lists of willing sellers and buyers of Class A Common Stock and Common Stock;

·those shareholders who elect to receive shares of Class A Common Stock will continue to have an equity interest in our Company and therefore will still be entitled to participate in any future value received as a result of a sale of the Company, if any;

holders of Class A Common Stock will not have any voting rights, unless otherwise required by law. Under North Carolina law, holders of Class A Common Stock will generally be entitled to vote as a separate voting group on proposals that will affect the Class A Common Stock, including transactions that will result in a change of control of the Company by merger, share exchange or otherwise;

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holders of our Common Stock will not be entitled to receive dividends unless dividends are paid on our shares of Class A Common Stock;

holders of Class A Common Stock will be entitled to a premium on any dividends paid on our Common Stock of \$0.03 per share;

upon liquidation, holders of Class A Common Stock will be entitled to distribution of assets on the same basis as holders of Common Stock; and

holders of shares of Class A Common Stock and Common Stock shall be entitled to receive the same consideration per share in any merger, share exchange, sale of substantially all of the assets of the Company or similar change of control transaction.

For a further description of how the Reclassification will affect you, please see “- Effects of the Reclassification on Shareholders of the Company” beginning on page 33.

Q: What is the vote required to approve the Amendment necessary to effect the Reclassification?

A: The Amendment providing for the Reclassification must be approved by the affirmative vote of a majority of the number of shares of Common Stock present and voting at the Annual Meeting. As of the Record Date, the record holders of our shares of Common Stock whose shares will remain Common Stock after the Reclassification own approximately 97.1% of our outstanding shares of Common Stock. Therefore, if all of our shareholders whose shares of Common Stock will remain after the Reclassification vote in favor of the Amendment, it will be approved and the Reclassification will become effective.

Q: What does it mean for the Company and our shareholders that the Company will no longer be a public reporting company and subject to federal securities laws reporting obligations?

A: As an SEC reporting company, we are required to prepare and file with the SEC, among other items, annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements and related materials and current reports on Form 8-K. In addition, our directors and executive officers are required to file reports with the SEC reflecting their beneficial ownership of shares of our Common Stock and any changes in their beneficial ownership. Our directors and executive officers are also subject to liability for short-swing profits under Section 16 of the Exchange Act. If the Amendment is approved and the Reclassification occurs, we will no longer be required to file these reports and our executive officers and directors will no longer be required to file reports with the SEC reflecting changes in their beneficial ownership of our shares, nor will our directors and executive officers be subject to liability for short-swing profits.

If the Amendment is approved and the Reclassification occurs, we currently intend to send to all of our shareholders quarterly and annual letters updating them on our performance. These quarterly and annual letters will not provide the detailed information included in our SEC reports, but rather will be abbreviated summaries of our performance for the most recently completed quarter or year and will include a short summary of our earnings results and asset and liability growth for the period presented as well as updates on any material developments during the quarter. We also currently intend to provide our shareholders with annual audited financial statements.

In addition to these quarterly and annual letters, the Company and the Bank, will continue to file regulatory reports with federal regulators. Under the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and Federal Deposit Insurance Corporation (the “FDIC”) requirements, the Company will file quarterly FR Y-9C and the Bank will file Consolidated Reports on Condition and Income (Call Reports). These reports, which are publicly available two days after the filing deadline in the case of FR Y-9C filings and 15 days after the filing deadline in the

case of Call Reports, are a compilation of schedules relating to the filing entity's balance sheet and income statement. Unlike our SEC reports though, these regulatory filings do not provide a detailed discussion and analysis of our financial condition and results of operations like the management's discussion and analysis included in our SEC reports, and shareholders will not have the benefit of management's detailed analysis of our results. Nor will these filings include any detailed information on our executive compensation programs and philosophies or the specific amounts we pay our executive officers and directors.

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If we are no longer a public reporting company, we will no longer be subject to many of the provisions of the Sarbanes-Oxley Act, which among other things, requires that our Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”) certify as to the accuracy of our financial statements and the accuracy of our internal control over financial reporting. The Sarbanes-Oxley Act, and the related rules and regulations of the SEC, also require that we disclose to you certain information about our Board of Directors and certain of its committees, including whether or not a majority of our directors and the members of certain of the committees are independent under the standards of, in our case, The NASDAQ Stock Market (the “NASDAQ”). If the reclassification transaction is approved, we will no longer be required to disclose this information to you.

Although we will no longer be subject to the SEC’s rules and regulations, including the rules and regulations enacted as a result of the Sarbanes-Oxley Act or the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Company will continue to be regulated by the Federal Reserve Board and the Bank will continue to be regulated by the FDIC and the North Carolina Commissioner of Banks (“NCCOB”). We will also continue to be subject to the anti-fraud provisions of the federal securities laws and the securities laws of the State of North Carolina. The federal bank regulators, the SEC and the North Carolina Securities Administrator, as the case may be, will each retain authority to enforce these laws against us with respect to all of our outstanding stock, including the Common Stock and the Class A Common Stock.

In addition to the reduced availability of detailed information, the liquidity of the Common Stock and the Class A Common Stock you hold in the Company is likely to be further reduced if we are no longer a reporting company. There will be no public information available about trades involving the Company’s capital stock and all of our stock will only be tradable in privately negotiated transactions.

Q: Why are you proposing the Amendment and the Reclassification?

A: Our reasons for the Amendment and the Reclassification are based on:

the ongoing and prospective administrative burden and expense of making our periodic filings with the SEC and complying with the Sarbanes-Oxley Act and the rules and regulations promulgated by the SEC thereunder;

the fact that operating as a non-SEC reporting company will reduce the burden on our management and employees which arises from monitoring and complying with increasingly complex SEC reporting requirements, thus allowing management to focus more of its attention on our customers and the community in which we operate;

the very limited trading volume of our Common Stock, the resulting lack of an active market for our shareholders and the absence of published research concerning our Company by stock analysts;

the fact that a “going private” transaction could be structured in a manner whereby all of our shareholders may retain an equity interest in the Company, and would not be forced out by means of a reverse stock split or other transaction;

the estimated expense of a “going private” transaction;

the fact that the Reclassification allows us to discontinue our reporting obligations with the SEC, while still allowing those shareholders receiving shares of Class A Common Stock to retain an equity interest in our Company with what the Board believes is approximately the same value per share as holders of Common Stock;

the fact that our earnings have historically been sufficient to support our growth without the need to raise capital through the public capital markets; and

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the fact that our holding company structure now allows us to raise additional capital for the Bank through borrowing money at the holding company level, which would not dilute the ownership interest of our then shareholders.

We considered that some of our shareholders may prefer that we continue as an SEC reporting company, which is a factor weighing against the Reclassification. However, we believe that the disadvantages and costs of continuing our reporting obligations with the SEC and continuing to comply with the Sarbanes-Oxley Act and provisions of the Dodd-Frank Act applicable to public reporting companies our size outweigh any advantages associated with doing so. See “Reasons for the Reclassification; Fairness of the Reclassification; Board Recommendation” beginning on page 17.

When considering whether to recommend the Amendment and the Reclassification, the Board of Directors considered alternative methods of reducing our number of shareholders to allow us to suspend SEC reporting requirements, including open market repurchases, a tender offer and a reverse stock split. For a more detailed discussion of these alternative methods that were considered by our Board see “Background of the Reclassification” beginning on page 15.

Based on a careful review of the facts and circumstances relating to the Reclassification, our Board of Directors believes that the Amendment and the terms and provisions of the Reclassification are substantively and procedurally fair to our shareholders, including our affiliated and unaffiliated shareholders, whether they will retain Common Stock or, at their election, will receive shares of Class A Common Stock or \$12.75 per share for their Common Stock.

In the course of determining that the Amendment and the Reclassification are procedurally and substantively fair to and are in the best interests of our shareholders, including both affiliated and nonaffiliated shareholders who will hold shares of Class A Common Stock or receive cash for their shares, our Board considered a number of positive and negative factors affecting these groups of shareholders in making their determination. To review the reasons for the Reclassification in greater detail, please see “Reasons for the Reclassification; Fairness of the Reclassification; Board Recommendation” beginning on page 17.

We expect that each of our directors and executive officers will own individually, or jointly with their spouse, more than 300 shares of Common Stock at the effective time of the Reclassification, and will therefore will continue to hold shares of Common Stock if the Reclassification is approved. These directors and executive officers collectively own 1,093,843 shares, or 30.8%, of the outstanding shares of our Common Stock.

Q: What is the recommendation of our Board of Directors regarding the Amendment and Reclassification proposal?

A: Our Board of Directors has determined that the Amendment and Reclassification are advisable and in the best interests of our shareholders. Our Board of Directors has unanimously approved the Amendment and the Reclassification and recommends that you vote FOR approval of this matter at the Annual Meeting.

Q: What will I receive in the Reclassification?

A: If you own in record name less than 300 shares of our Common Stock on the date of the Reclassification, you may elect to either (i) receive an equal number of shares of Class A Common Stock or (ii) make the Cash Election to receive \$12.75 for each share of Common Stock you hold. If you elect to receive shares of Class A Common Stock, you will be asked to turn in your stock certificates for Common Stock so that we may issue you shares of Class A Common Stock.

In the event the proposal to approve the Amendment and effect the Reclassification is adopted and you elect to receive shares of Class A Common Stock:

you will receive no additional consideration for your shares of Common Stock when they are reclassified as shares of Class A Common Stock;

you will hold shares that may be less liquid than the shares you currently hold because there is no existing market, nor do we expect a market will develop, for our Class A Common Stock; however we intend to maintain lists of willing sellers and buyers of Class A Common Stock, just as we currently do for our Common Stock;

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you will receive a security with no voting rights, except as required by law. Under North Carolina law, holders of Class A Common Stock will generally be entitled to vote as a separate voting group on proposals that will affect the Class A Common Stock, including transactions that will result in a change of control of the Company by merger, share exchange or otherwise; and

·all of our shareholders will lose the benefits of holding securities registered under Section 12 of the Exchange Act.

In the event you make the Cash Election:

·you will receive \$12.75 per share for each of your shares of Common Stock; and

·you will cease to be a shareholder of the Company with respect to the shares repurchased by the Company.

Q: How do I elect to receive either the Cash Election price or shares of Class A Common Stock?

A: If you own in record name less than 300 shares of our Common Stock on the date of the Reclassification, we will send you an election form. You must make your election regarding receipt of either \$12.75 per share of Common Stock or Class A Common Stock on the election form that will be mailed to you separately. You may elect to receive either the Cash Election price or the Class A Common Stock in exchange for all of your shares of Common Stock held as of the date of the Reclassification. If you fail to timely return the election form or if you return the election form but fail to specify any election on the election form, you will be deemed to have elected to receive the Class A Common Stock in exchange for your Common Stock held as of the date of the Reclassification. For more information, see the section captioned “- Election Procedure,” beginning on page 30.

Q: Is the Class A Common Stock being issued in reliance on an exemption from registration?

A: We are issuing the shares of Class A Common Stock without registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance on an exemption under Section 3(a)(9) of the Securities Act for the exchange by a company of any security with its existing shareholders exclusively, where no commission or other remuneration is paid or given directly or indirectly for soliciting the exchange. We believe that exemption is available for the Reclassification because we are only issuing the Class A Common Stock to our holders of Common Stock, and to no other persons or entities. Further, we are not paying any commission or other remuneration for soliciting the exchange.

Q: What are the terms of the Class A Common Stock?

A: The following table sets forth the principal differences between our Common Stock and the Class A Common Stock:

	<u>Common Stock</u>	<u>Class A Common Stock</u>
Voting Rights	Unlimited voting rights, with each share being entitled to one vote	No voting rights, unless otherwise required by law. Under North Carolina law, holders of Class A Common Stock are generally entitled to vote as a separate voting group on proposals that will affect the Class A Common Stock, including transactions that will result in a change of control of the Company by merger, share exchange or otherwise.
Dividends	If and when declared by our Board of Directors	If dividends are declared on the Common Stock, the dividends payable on the Class A Common Stock shall be equal to \$0.03 more than is declared and paid on the Common Stock

Liquidation Rights	Entitled to distribution of assets on same basis as holders of Class A Common Stock	Entitled to distribution of assets on same basis as holders of Common Stock
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For a complete description of the terms of the Class A Common Stock, please refer to “Class A Common Stock to be Issued if the Amendment is Approved” beginning on page 40.

Q: Why is 300 shares the “cutoff” number for determining which shareholders will receive Class A Common Stock or cash in the amount of \$12.75 per share, at the election of the relevant shareholders, and which shareholders will remain as Common Stock shareholders of the Company?

A: The purpose of the Reclassification is to reduce the number of our record shareholders of our Common Stock to less than 1,200 and to have under 2,000 record shareholders of our Class A Common Stock, which will allow us to de-register as an SEC reporting company. Our Board selected 300 shares as the “cutoff” number in order to enhance the probability that after the Reclassification we will continue to have less than 1,200 record shareholders of our Common Stock and have less than 2,000 record shareholders of each of our Class A Common Stock so as to avoid triggering an obligation to resume reporting under the Exchange Act.

Q: May I buy additional shares or consolidate my holdings in order to remain a holder of Common Stock in the Company?

A: Yes, you may purchase additional shares or consolidate shares of Common Stock you own in separate names or separately with other family members. The key date for acquiring additional shares or consolidating your holdings is May 27, 2016 assuming we file the Amendment with the North Carolina Secretary of State on that date. So long as you are able to acquire a sufficient number of shares of Common Stock so that you are the record owner of 300 or more shares by the date that we file our Amendment with the North Carolina Secretary of State (which we expect to be May 27, 2016), you will retain your shares of Common Stock and will not receive Class A Common Stock or cash in the Reclassification. Recent trades known to management of the Company were at \$11.70 per share. Due to the illiquidity of and very limited market for our Common Stock, however, it may be difficult for you to acquire the requisite number of shares of our Common Stock to avoid reclassification, particularly if you only own a small number of shares.

Q: What if I hold my shares of Common Stock in “street name”?

A: The Reclassification is being effected at the record shareholder level. This means that we will look at the number of shares registered in the name of a single holder to determine if that holder will be receiving, at the holder’s election, shares of Class A Common Stock or cash. It is important that you understand how shares that are held by you in “street name” will be treated for purposes of the Reclassification. If you have transferred your shares of our Common Stock into a brokerage or custodial account you are no longer shown on our shareholder records as the record holder of these shares. Instead, the brokerage firms or custodians typically hold all shares of our Common Stock that their clients have deposited with them through a single nominee; this is what is meant by “street name.” If that single nominee is the record shareholder for 300 or more shares, then the shares registered in that nominee’s name will be completely unaffected by the Reclassification. If that single nominee is the record shareholder for less than 300 shares, then the shares registered in that nominee’s name either will be reclassified as shares of Class A Common Stock or repurchased at \$12.75 per share, at the election of the nominee. Because the Reclassification only affects record shareholders, it does not matter whether any of the underlying beneficial owners for whom that nominee acts own less than 300 shares so long as the record holder of their shares owns 300 or more shares of Common Stock. At the end of the Reclassification, beneficial owners owning less than 300 shares of Common Stock will continue to beneficially own the same number of shares of our Common Stock as they did at the start of the Reclassification, even if the number of shares they own is less than 300 so long as the record holder of their shares owns 300 or more shares of Common Stock.

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If you hold your shares in “street name,” you should talk to your broker, nominee, agent or custodian to determine how they expect the Reclassification to affect you. Because other “street name” holders who hold through your broker, agent or nominee may adjust their holdings prior to the Reclassification, you may have no way of knowing whether you will continue to hold shares of Common Stock, or if you will have the right to elect to receive shares of Class A Common Stock or cash in the Reclassification until it is completed.

Q: If my shares are held in “street name” by my broker, nominee, agent or custodian, will my broker, nominee, agent or custodian vote my shares for me?

A: If you hold your shares of Common Stock in “street name” then you are not a record holder of our Common Stock and you may not vote directly on the Amendment or any other proposal to be considered at the Annual Meeting. You may, however, instruct the record holder of the shares you own in “street name” how you would like the shares you beneficially own voted, but your broker, nominee, agent or custodian will only be permitted to vote your shares if you specifically instruct them how to vote. You should follow the procedures provided by your broker, nominee, agent or custodian regarding the voting of your shares. If you do not instruct your broker, nominee, agent or custodian to vote your shares, your shares will not be voted and will have no effect on the Amendment, the election of directors, the ratification of the selection of the Company’s independent public accounting firm or the proposal to adjourn the Annual Meeting.

Q: Will shares that I hold in my self-directed IRA be aggregated with shares I own in my own name outside of my IRA for purposes of determining whether I own 300 or more shares of Common Stock?

A: No, shares that are owned by a custodian for your benefit in a self-directed IRA will not be aggregated with shares you own individually for purposes of determining whether you own 300 or more shares of Common Stock. Under SEC rules, custodians are considered a distinct holder of record for purposes of Sections 12(g) and 15(d) of the Exchange Act. Accordingly, even if your individual ownership and your IRA ownership total 300 or more shares in the aggregate, your shares of Common Stock held in your IRA either will be converted to shares of Class A Common Stock or cash, as elected by the custodian, in the Reclassification if your IRA account owns less than 300 shares of Common Stock. For example, if you individually own 150 shares of Common Stock and own 150 shares of Common Stock in an IRA account, all of your shares of Common Stock will either be converted into shares of Class A Common Stock or cash, depending on the elections made, if the Amendment is approved and the Reclassification occurs.

Q: When is the Reclassification expected to be completed?

A: If the proposed Amendment is approved at the Annual Meeting, we expect to complete the Reclassification as soon as practicable following the Annual Meeting. Although North Carolina law allows our Board to abandon the proposed Reclassification after shareholder approval but prior to filing the Amendment with the North Carolina Secretary of State, we have no plans to do so and see no circumstances that would cause the Board to abandon the Reclassification in the event the Amendment is approved by our shareholders.

Q: What if the proposed Reclassification is not completed?

A: It is possible that the proposed Reclassification will not be completed. The proposed Reclassification will not be completed if, for example, the holders of a majority of the number of shares of Common Stock present and voting at the Annual Meeting do not vote to adopt the Amendment. If the Reclassification is not completed, we will continue our current operations, and we will continue to be subject to the reporting requirements of the SEC.

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Q: What will happen if, through negotiated trades or through other transfers, the Company gains additional security holders requiring SEC registration?

A: We are currently subject to the reporting obligations under Section 13(a) of the Exchange Act, which requires us to file periodic reports with the SEC, because our Common Stock is registered under Section 12 of the Exchange Act. Such registration is required under Section 12 because we have more than 1,200 holders of record of our Common Stock. If the shareholders approve the Amendment, our Common Stock will be held by less than 1,200 shareholders of record.

We may then file a Form 15 and terminate the registration of our Common Stock and the obligation to file Section 13(a) periodic reports arising under Section 12; however, our periodic reporting obligations arising under Section 15(d) of the Exchange Act, cannot be terminated, but can only be suspended. Therefore, if our shareholders of record for the Common Stock ever rise above 1,200 as of the last day of any fiscal year, then we will again be responsible for making filings in compliance with Section 15(d). This would require us to file periodic reports going forward and an annual report for the preceding fiscal year.

Q: If the Amendment is approved, will we continue to have our annual financial statements audited and will shareholders receive information on our Company?

A: Yes and yes. Even if we terminate our registration with the SEC, we will continue to have our annual financial statements audited and send out periodic information to our shareholders. This audit will be done on the same basis as the current audit of our financial statements except that the audit will be done in accordance with generally accepted auditing standards rather than the rules and regulations of the Public Company Accounting Oversight Board which will no longer be applicable to us. Periodic information distributed is expected to include shareholder letters, which letters currently include information updating our financial performance and any other news affecting the Company, such as new offices, acquisitions, economic updates or new product offerings. We also intend to continue to prepare and distribute audited annual financial statements to our shareholders. In addition, the Company and the Bank will still be required to file regulatory reports with our federal regulators, which reports will be publicly available.

Q: Will I have appraisal or dissenters' rights in connection with the reclassification transaction?

A: No. Under North Carolina law, which governs the Reclassification, you are not entitled to appraisal or dissenters' rights in connection with the Reclassification; however, if you are the record holder of less than 300 shares of Common Stock, you are entitled to make the Cash Election and receive \$12.75 per share for your shares of Common Stock.

Q: What are the tax consequences of the Reclassification?

A: We believe that the Reclassification, if approved and completed, will have the following federal income tax consequences:

·the Reclassification should result in no material federal income tax consequences to the Company;

those shareholders receiving Class A Common Stock for their shares of Common Stock will not recognize any gain or loss in the Reclassification, their basis in the Class A Common Stock will equal the basis in their shares of Common Stock, and their holding period for shares of Class A Common Stock will include the holding period during which their shares of Common Stock were held;

where Class A Common Stock is received for Common Stock in a tax-free recapitalization, we expect that the proceeds from a subsequent sale of the Class A Common Stock will be treated as capital gain or loss to most shareholders. However, the Class A Common Stock could be considered Section 306 stock as defined under the Internal Revenue Code of 1986, as amended (the "Code"), and in that case the proceeds from a subsequent sale of Class A Common Stock (i) will be treated as ordinary income (dividend income) to the extent that the fair market value of the shares sold, on the date distributed to the shareholder, would have been a dividend to such shareholder had we distributed cash in lieu of stock; (ii) any excess of the amount received over the amount treated as ordinary income plus the cost basis of the stock will be treated as a capital gain; and (iii) no loss, if any, will be recognized. Under current tax law, if proceeds are treated as dividend income, such proceeds will be taxed at the same rates that apply to net capital gains (i.e., a maximum rate of 20%);

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those holders of Common Stock who make a Cash Election and receive \$12.75 per share for shares of Common Stock held as a capital asset will generally recognize capital gain (or loss) measured by the difference between the amount of cash received and the holder's basis in those shares, provided that the payment is treated as an exchange pursuant to Section 302 of the Code, and not otherwise equivalent to a dividend. The capital gain or loss will be long-term capital gain (or loss) if the holder's holding period for the repurchased shares is more than one year;

those holders of Common Stock who make a Cash Election and receive \$12.75 per share for shares of Common Stock may recognize net investment income subject to a 3.8% tax on the difference between the amount of cash received and the holder's basis in those shares provided that the holders adjusted gross income exceeds \$200,000 (\$250,000 if filing jointly). Net investment income is limited to the lesser of the net investment income or excess of adjusted gross income as defined in Section 1411 of the Code over the threshold amount of \$200,000 (\$250,000 if filing jointly); and

those shareholders continuing to hold Common Stock will not recognize any gain or loss or dividend income in connection with the Reclassification but will continue to recognize dividend income (and possibly net investment income) in connection with regular quarterly dividends.

For a description of the tax consequences of the Reclassification, see the section entitled "Material Federal Income Tax Consequences of the Reclassification," beginning on page 36 of this Proxy Statement.

Because determining the tax consequences of the Reclassification can be complicated and depends on your particular tax circumstances, you should consult your own tax advisor to understand fully how the Reclassification will affect you.

Q: Should I send in my stock certificates now?

A: No. If you are the record holder of less than 300 shares of Common Stock, we will send you written instructions for exchanging your stock certificates for shares of Class A Common Stock or \$12.75 per share of Common Stock. If you own in record name 300 or more shares of our Common Stock, you will continue to hold the same shares after the Reclassification as you did before and you will not need to send in your stock certificate(s) or take any other action after the Reclassification is effective.

Q: Did the Board of Directors receive any fairness opinions or similar reports regarding the fairness of the Cash Election price?

A: Yes. Our Board received the opinion of its financial advisor, Equity Research Services, Inc. ("Equity Research Services") that as of the date of the opinion the Cash Election price (\$12.75 per share) to be paid to certain of our shareholders for their Common Stock was fair, from a financial point of view, to all of the Company's shareholders. We encourage you to read the entire written opinion, including its assumptions and limitations, which is attached as Appendix B to this Proxy Statement.

Q: Do our directors and officers have different interests in the Reclassification?

A: Possibly. You should be aware that our directors and executive officers have interests in the Reclassification that may present actual or potential, or the appearance of actual or potential, conflicts of interest in connection with the Reclassification.

We expect that all of our directors and executive officers will individually, or jointly with their spouse, own more than 300 shares of Common Stock at the effective time of the Reclassification, and will therefore continue as holders of Common Stock if the Amendment is approved and the Reclassification occurs. In addition, because there will be

fewer outstanding shares of Common Stock, these directors and executive officers will own a larger relative percentage of the Common Stock on a post-transaction basis, which will continue to have exclusive voting control over the Company as compared to the shares of Class A Common Stock which will have no voting rights except as otherwise required by law. Under North Carolina law, holders of Class A Common Stock will generally be entitled to vote as a separate voting group on proposals that will affect the Class A Common Stock, including transactions that will result in a change of control of the Company by merger, share exchange or otherwise. As of the Record Date, our directors and executive officers collectively beneficially held 1,248,232 shares (including exercisable stock options and shares of Preferred Stock which are convertible into shares of Common Stock) or 33.7% of our Common Stock. Based upon our estimates, taking into account the effect of the Reclassification on our outstanding shares of Common Stock as described above, the directors and executive officers will beneficially hold 34.7% of our Common Stock (including exercisable stock options and shares of Preferred Stock which are convertible into shares of Common Stock) following consummation of the Reclassification.

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Additionally, our directors and executive officers beneficially own 36,420 shares, or 19.2%, of our Series A Preferred Stock and 60,169 shares, or 33.2%, of our Series D Preferred Stock. Each share of Series A Preferred Stock is convertible into 2.2955 shares of Common Stock. Each share of Series D Preferred Stock is convertible into 1.10 shares of Common Stock. This represents a potential conflict of interest because our directors approved the Reclassification and are recommending that you approve it.

If the Reclassification is consummated, we will no longer be required to comply with many of the provisions of the Sarbanes-Oxley Act, which impose potentially greater liability on our directors and officers. For example, our CEO and CFO will no longer be required to certify as to the accuracy of our financial statements. In addition, our directors and executive officers will no longer be subject to liability for short-swing profits under Section 16 of the Exchange Act. Nor will we be required to make detailed disclosures to you about the background and business experience of our officers and directors or the compensation we pay to them. We will also no longer be required to disclose to you information about certain transactions that we may enter into with our officers and directors or members of their family or businesses that they own. Finally, our officers and directors will continue to be eligible for indemnification for their actions in accordance with our Articles of Incorporation, bylaws and North Carolina law, subject to limitation under federal banking laws and regulations, but will no longer be subject to any limitations on indemnification under public policies of the SEC.

Despite these potential conflicts of interest, our Board believes the proposed Reclassification is procedurally and substantively fair to all shareholders, including our affiliated and unaffiliated shareholders whether they will retain Common Stock, are issued Class A Common Stock or receive \$12.75 per share of Common Stock, for the reasons discussed in this Proxy Statement.

Q: How are you financing the Reclassification?

A: We estimate that the total fees and expenses relating to the Reclassification will be approximately \$70,000. This amount will be higher to the extent that shareholders make a Cash Election. We intend to pay these transaction amounts through available cash and, if necessary, dividends paid to us by the Bank. In structuring the terms of the transaction in a manner that shares of Common Stock may be either converted into shares of Class A Common Stock or repurchased for \$12.75 per share, our Board believes that it has attempted to balance the interests of reducing our expenses in transitioning to a non-SEC reporting company while at the same time affording all shareholders the opportunity to retain an equity ownership interest in the Company.

Q: Where can I find more information about the Company?

A: We file periodic reports and other information with the SEC. You may read and copy this information at the SEC's public reference facilities. Please call the SEC at 1-800-SEC-0330 for information about these facilities. This information is also available without charge, other than Internet access charges, at the Internet site maintained by the SEC at <http://www.sec.gov>. For a more detailed description of the information available, please see "Where You Can Find More Information" on page 63.

Q: Who can help answer my questions?

A: If you have questions about the Reclassification, or any other matter to be voted upon at the Annual Meeting, after reading this Proxy Statement or need assistance in voting your shares of Common Stock, you should contact Mark H. Towe, Senior Vice President at (336) 783-3900.

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PROPOSAL 1: AMENDMENT TO OUR ARTICLES OF INCORPORATION AND RECLASSIFICATION

SPECIAL FACTORS

Overview of the Reclassification

This Proxy Statement is being furnished in connection with the solicitation of proxies by our Board of Directors for our Annual Meeting of Shareholders at which our shareholders will be asked to consider and vote on a proposal to amend our Articles of Incorporation. If approved, the Amendment will provide for (i) the authorization of a new class of securities entitled Class A Common Stock, and (ii) the reclassification of shares of our Common Stock held by shareholders who own less than 300 shares as shares of Class A Common Stock except for those shares of Common Stock held by such holders who make a Cash Election. The Reclassification will be made on the basis of one share of Class A Common Stock as described above for each share of Common Stock held immediately prior to the Reclassification.

Record shareholders holding 300 or more shares of Common Stock immediately before the effective time of the Reclassification will hold the same number of shares of Common Stock following the Reclassification and record holders of less than 300 shares of Common Stock will no longer hold Common Stock in the Company. We intend, immediately following the Reclassification, to initiate efforts to terminate the registration of our shares of Common Stock under the Exchange Act, although we may be required to continue filing certain reports with the SEC for up to 90 days following termination of our registration requirement and possibly beyond that date until we file an annual report on Form 10-K for the year ending December 31, 2016. We intend to seek no-action relief from the SEC permitting us to avoid filing a Form 10-K for the year ended December 31, 2016, but cannot guarantee that the SEC will grant such relief.

If the Amendment is approved by our shareholders at the Annual Meeting and the Reclassification is implemented by our Board of Directors, the Reclassification will generally affect our shareholders as follows:

IF, ON THE DATE OF THE RECLASSIFICATION, YOU ARE A RECORD SHAREHOLDER WITH:

AFTER THE TRANSACTION:

300 or more shares of Common Stock:

Your shares of Common Stock will no longer be eligible for public trading; although our shares are not actively traded currently, this means that brokers will no longer make a market in our Common Stock. Sales may continue to be made in privately negotiated transactions.

Less than 300 shares of Common Stock and you do not make the Cash Election:

You will no longer hold shares of our Common Stock but, rather, will hold a number of shares of Class A Common Stock equal to the number of shares of Common Stock that you held of record before the Reclassification. It is not anticipated that an active trading market for these shares will develop. Sales may be made in privately negotiated transactions.

Common Stock held in "street name" through a nominee (such as a bank or broker):

Brokerage firms or custodians typically hold all shares of our Common Stock that their clients have deposited with those firms through a single nominee. If that single nominee is the record shareholder for 300 or more shares, then the shares registered in that nominee's name will be completely unaffected by the reclassification transaction. If that

single nominee is the record shareholder for less than 300 shares, then the shares registered in that nominee's name, depending on the election made, either will be reclassified as shares of Class A Common Stock or repurchased by the Company for \$12.75 per share. Because the Reclassification only affects record shareholders, it does not matter whether any of the underlying beneficial owners for whom that nominee acts own less than 300 shares. At the end of the Reclassification, these beneficial owners will continue to beneficially own the same number of shares of our Common Stock as they did at the start of the reclassification transaction, even if the number of shares they beneficially own is less than 300.

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IF, ON THE DATE OF
THE
RECLASSIFICATION,
YOU

ARE A RECORD
SHAREHOLDER
WITH:

AFTER THE TRANSACTION:

Common Stock held in
self-directed IRA:

Shares of Common Stock that are owned by a custodian for your benefit in a self-directed IRA will not be aggregated with shares you own individually for purposes of determining whether you own 300 or more shares of Common Stock. Under SEC rules, custodians are considered a distinct holder of record for purposes of Sections 12(g) and 15(d) of the Exchange Act. Accordingly, even if your individual ownership and your IRA ownership equal or exceed 300 shares in the aggregate, if separately those accounts own less than 300 shares of Common Stock, they will either, depending on the election made, be converted to shares of Class A Common Stock or repurchased by the Company for \$12.75 per share.

The effects of the Reclassification on each group of shareholders are described more fully below under “- Effects of the Reclassification on Shareholders of the Company” beginning on page 33 and the effects on the Company are described more fully below under “- Plans or Proposals” beginning on page 34.

Background of the Reclassification

The Company was incorporated in 2003 and thereupon began complying with the Exchange Act, including preparing and filing periodic reports, including annual shareholder reports and proxy statements.

On April 5, 2012, President Obama signed the Jumpstart Our Business Startups Act, which we refer to as the JOBS Act, which, among other things, raised the threshold for the number of shareholders that a company must have to be required to register a class of securities and for banks and bank holding companies to deregister their securities under the Exchange Act. Specifically, the JOBS Act amended the Exchange Act, to permit banks and bank holding companies to deregister under the Exchange Act, if their shares are held by less than 1,200 record holders.

In light of the adoption of the JOBS Act, management of the Company discussed with the Company’s counsel the benefits and other costs of remaining public, the benefits and costs associated with various procedures for “going private,” including a stock repurchase, a reverse stock split, or a reclassification of the existing Common Stock into classes of stock that did not require registration.

At a series of meetings of our Board of Directors held in late 2015 and early 2016, the burdens and costs associated with being a public company and ways to better manage our large shareholder base and thinly traded Common Stock were further discussed. Over the course of these meetings, our Board had substantial discussions regarding the costs associated with going private and the ongoing costs of remaining an SEC-reporting company. The Board also discussed alternatives to a stock reclassification, including a tender offer, a stock repurchase on the open market or a reverse stock split whereby shareholders owning less than a certain number of shares would be “cashed out.” The approximate cost to cash-out enough holders of our Common Stock to bring the number of our record holders to around 799 (the number of record holders of our Common Stock that we anticipate to have following consummation of the Reclassification) would have been approximately \$1.2 million (the purchase of approximately 102,920 shares of Common Stock at \$11.25 per share, which is the weighted average price of the Common Stock for the 90 day period prior to January 15, 2016). The Board, however, preferred the Reclassification, including a repurchase election, because it allowed those shareholders affected by the Reclassification to choose to either maintain an equity position in the Company or liquidate their shares. An equity position in the Company would allow the shareholders to participate and share in any profits should a sale of the Company occur. At these meetings, the Board also considered

the potential negative consequences of the Reclassification to our shareholders, and, in particular, the shareholders whose shares would be reclassified into Class A Common Stock or repurchased for cash. However, the Board believed that although our shareholders will lose the benefits of holding publicly registered stock and the Class A Common Stock will additionally lose their voting rights (except under certain circumstances), the Board concluded that the benefit of the Reclassification was that it would allow these shareholders affected by the Reclassification to choose to either receive the Class A Common Stock and maintain an equity position in the Company or choose to receive cash for their shares. Even with the reduced liquidity and no trading market for our Class A Common Stock, our Board believes maintaining an equity ownership interest in the Company will be beneficial because of the value a shareholder may receive for its shares in any future merger or sale of the Company. After these discussions, the Board instructed counsel and its independent accountants to proceed with attempting to reclassify our shares of Common Stock in order to no longer be a publicly reporting company. The Board's decision was based on:

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·the ongoing administrative burden and expense of making our periodic filings with the SEC;

the fact that operating as a non-SEC reporting company will reduce the burden on our management and employees
·which arises from increasingly stringent SEC reporting requirements, thus allowing management to focus more of its attention on our customers and the community in which we operate;

·the very limited trading volume of our Common Stock and the resulting lack of an active market for our shareholders;

the fact that a “going private” transaction could be structured in a manner whereby all of our shareholders may choose to retain an equity interest in the Company, and would not b