

MIDSOUTH BANCORP INC
Form 10-Q
August 09, 2013

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-11826

MIDSOUTH BANCORP, INC.
(Exact name of registrant as specified in its charter)

Louisiana 72-1020809
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

102 Versailles Boulevard, Lafayette, Louisiana 70501
(Address of principal executive offices, including zip code)
(337) 237-8343
(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Small reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

YES ☐ NO ☒

As of August 9, 2013, there were 11,253,216 shares of the registrant's Common Stock, par value \$0.10 per share, outstanding.

Part I – <u>Financial Information</u>	3
Item 1. <u>Financial Statements.</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Earnings (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss) (unaudited)</u>	5
<u>Consolidated Statement of Shareholders' Equity (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows (unaudited)</u>	7
<u>Notes to Interim Consolidated Financial Statements</u>	8
<u>Forward-Looking Statements</u>	29
<u>Critical Accounting Policies</u>	30
<u>Results of Operations</u>	31
<u>Analysis of Balance Sheet</u>	37
<u>Liquidity and Capital</u>	38
<u>Asset Quality</u>	40
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	42
Item 4. <u>Controls and Procedures.</u>	42
Part II – <u>Other Information</u>	43
Item 1. <u>Legal Proceedings.</u>	43
Item 1A. <u>Risk Factors.</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	43
Item 3. <u>Defaults Upon Senior Securities.</u>	43
Item 4. <u>Mine Safety Disclosures.</u>	43
Item 5. <u>Other Information.</u>	43
Item 6. <u>Exhibits.</u>	43

Table of Contents

Part I – Financial Information

Item 1. Financial Statements.

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands, except share data)

	June 30, 2013 (unaudited)	December 31, 2012* (audited)
Assets		
Cash and due from banks, including required reserves of \$8,295 and \$14,083, respectively	\$42,558	\$46,297
Interest-bearing deposits in banks	15,311	20,276
Federal funds sold	1,709	7,000
Time deposits held in banks	-	881
Securities available-for-sale, at fair value (cost of \$365,059 at June 30, 2013 and \$412,065 at December 31, 2012)	367,299	424,617
Securities held-to-maturity (fair value of \$160,137 at June 30, 2013 and \$156,924 at December 31, 2012)	163,610	153,524
Other investments	10,951	8,310
Loans	1,118,572	1,046,940
Allowance for loan losses	(8,531)	(7,370)
Loans, net	1,110,041	1,039,570
Bank premises and equipment, net	67,881	63,461
Accrued interest receivable	6,764	6,691
Goodwill	42,486	42,781
Intangibles	8,494	9,047
Cash surrender value of life insurance	13,321	13,183
Other real estate	6,900	7,496
Other assets	6,451	8,594
Total assets	\$1,863,776	\$1,851,728
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$395,341	\$380,557
Interest bearing	1,140,453	1,171,347
Total deposits	1,535,794	1,551,904
Securities sold under agreements to repurchase	51,710	41,447
FHLB advances	51,916	27,128
Notes payable	1,500	2,000
Junior subordinated debentures	29,384	29,384
Other liabilities	6,039	10,624
Total liabilities	1,676,343	1,662,487
Commitments and contingencies		
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at June 30, 2013 and December 31, 2012	32,000	32,000
Series C Preferred stock, no par value; 100,000 shares authorized, 99,971 shares issued and outstanding at June 30, 2013 and December 31, 2012	9,997	9,997
Common stock, \$0.10 par value; 30,000,000 shares authorized, 11,403,693 and 11,386,611 issued and 11,253,216 and 11,236,134 outstanding at June 30, 2013 and December 31,	1,140	1,139

2012, respectively

Additional paid-in capital	110,776	110,603
Accumulated other comprehensive income	1,456	8,159
Treasury stock – 150,477 shares at June 30, 2013 and December 31, 2012, at cost	(3,286)	(3,286)
Retained earnings	35,350	30,629
Total shareholders' equity	187,433	189,241
Total liabilities and shareholders' equity	\$1,863,776	\$1,851,728

See notes to unaudited consolidated financial statements.

* Derived from audited financial statements.

3

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Statements of Earnings (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Interest income:				
Loans, including fees	\$18,197	\$12,355	\$35,314	\$24,758
Securities and other investments:				
Taxable	2,251	2,148	4,310	4,217
Nontaxable	812	730	1,651	1,505
Federal funds sold	1	2	5	4
Time and interest bearing deposits in other banks	17	21	55	60
Other investments	78	42	150	87
Total interest income	21,356	15,298	41,485	30,631
Interest expense:				
Deposits	990	1,059	2,068	2,159
Securities sold under agreements to repurchase	182	186	361	367
Other borrowings and payable	106	-	230	-
Junior subordinated debentures	336	244	672	492
Total interest expense	1,614	1,489	3,331	3,018
Net interest income	19,742	13,809	38,154	27,613
Provision for loan losses	1,250	575	1,800	1,250
Net interest income after provision for loan losses	18,492	13,234	36,354	26,363
Non-interest income:				
Service charges on deposits	2,271	1,868	4,442	3,692
Gain on securities, net	-	135	204	135
ATM and debit card income	1,638	1,149	2,994	2,275
Other charges and fees	1,095	813	1,795	1,391
Total non-interest income	5,004	3,965	9,435	7,493
Non-interest expenses:				
Salaries and employee benefits	8,369	6,152	16,761	12,238
Occupancy expense	3,725	2,783	7,322	5,331
FDIC insurance	244	195	589	453
Other	5,929	4,660	11,026	8,436
Total non-interest expenses	18,267	13,790	35,698	26,458
Income before income taxes	5,229	3,409	10,091	7,398
Income tax expense	1,566	931	3,000	2,034
Net earnings	3,663	2,478	7,091	5,364
Dividends on preferred stock and accretion of warrants	392	380	684	780
Net earnings available to common shareholders	\$3,271	\$2,098	\$6,407	\$4,584
Earnings per share:				
Basic	\$0.29	\$0.20	\$0.57	\$0.44

Edgar Filing: MIDSOUTH BANCORP INC - Form 10-Q

Diluted	\$0.29	\$0.20	\$0.56	\$0.44
---------	--------	--------	--------	--------

See notes to unaudited consolidated financial statements.

4

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net earnings	\$3,663	\$2,478	\$7,091	\$5,364
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities available-for-sale:				
Unrealized holding gains (losses) arising during the year	(8,993)	1,695	(10,108)	1,289
Less: reclassification adjustment for gains on sales of securities available-for-sale	-	(135)	(204)	(135)
Total other comprehensive income (loss), before tax	(8,993)	1,560	(10,312)	1,154
Income tax effect related to items of other comprehensive income	(3,148)	530	(3,609)	392
Total other comprehensive income (loss), net of tax	(5,845)	1,030	(6,703)	762
Total comprehensive income (loss)	\$(2,182)	\$3,508	\$388	\$6,126

See notes to unaudited consolidated financial statements.

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Statement of Shareholders' Equity (unaudited)

For the Six Months Ended June 30, 2013

(in thousands, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount					
Balance - December 31, 2012	131,971	\$41,997	11,386,611	\$1,139	\$110,603	\$8,159	\$(3,286)	\$30,629	\$189,241
Net earnings	-	-	-	-	-	-	-	7,091	7,091
Dividends on Series B and Series C Preferred Stock	-	-	-	-	-	-	-	(684)	(684)
Dividends on common stock, \$0.15 per share	-	-	-	-	-	-	-	(1,686)	(1,686)
Common stock issued under employee stock plans, including tax benefit	-	-	17,082	1	29	-	-	-	30
Stock option and restricted stock compensation expense	-	-	-	-	144	-	-	-	144
Change in accumulated other comprehensive income	-	-	-	-	-	(6,703)	-	-	(6,703)
Balance – June 30, 2013	131,971	\$41,997	11,403,693	\$1,140	\$110,776	\$1,456	\$(3,286)	\$35,350	\$187,433

See notes to unaudited consolidated financial statements.

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

(in thousands)

	For the Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net earnings	\$7,091	\$5,364
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	2,696	1,786
Accretion of purchase accounting adjustments	(3,732)	(1,255)
Provision for loan losses	1,800	1,250
Provision for deferred tax expense	996	845
Amortization of premiums on securities, net	2,384	811
Amortization of other investments	9	7
Stock option expense	123	28
Restricted stock expense	21	29
Net gain on sale of investment securities	(204)	(135)
Net loss on sale of other real estate owned	112	93
Net write down of other real estate owned	347	452
Net loss on sale/disposal of premises and equipment	148	-
Change in accrued interest receivable	(73)	293
Change in accrued interest payable	(145)	(98)
Change in other assets & other liabilities, net	537	(128)
Net cash provided by operating activities	12,110	9,342
Cash flows from investing activities:		
Net decrease in time deposits in other banks	881	-
Proceeds from maturities and calls of securities available-for-sale	44,861	49,411
Proceeds from maturities and calls of securities held-to-maturity	13,784	7,698
Proceeds from sale of securities available-for-sale	41,839	1,703
Purchases of securities available-for-sale	(47,304)	(53,270)
Purchases of securities held-to-maturity	(24,700)	(30,697)
Proceeds from redemptions of other investments	1,000	-
Purchases of other investments	(2,651)	(185)
Net change in loans	(64,053)	(5,719)
Purchases of premises and equipment	(7,274)	(2,738)
Proceeds from sale of premises and equipment	10	-
Proceeds from sale of other real estate owned	619	131
Net cash used in investing activities	(42,988)	(33,666)
Cash flows from financing activities:		
Change in deposits	(15,702)	(10,402)
Change in securities sold under agreements to repurchase	10,263	4,269
Borrowings on Federal Home Loan Bank advances	25,000	100
Repayments of Federal Home Loan Bank advances	(28)	(100)
Repayments of notes payable	(500)	-
Proceeds and tax benefit from exercise of stock options	30	65
Payment of dividends on preferred stock	(660)	(800)
Payment of dividends on common stock	(1,520)	(1,465)

Edgar Filing: MIDSOUTH BANCORP INC - Form 10-Q

Net cash provided by (used in) financing activities	16,883	(8,333)
Net decrease in cash and cash equivalents	(13,995)	(32,657)
Cash and cash equivalents, beginning of period	73,573	83,303
Cash and cash equivalents, end of period	\$59,578	\$50,646

Supplemental cash flow information:

Interest paid	\$3,269	\$3,116
Income taxes paid	3,050	1,985
Noncash investing and financing activities		
Transfer of loans to other real estate	482	425
Accrued preferred stock dividends	392	380
Financed sales of other real estate	-	150

See notes to unaudited consolidated financial statements.

7

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries

Notes to Interim Consolidated Financial Statements

June 30, 2013

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the financial position of MidSouth Bancorp, Inc. (the "Company") and its subsidiaries as of June 30, 2013 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2012 Annual Report on Form 10-K.

The results of operations for the six month period ended June 30, 2013 are not necessarily indicative of the results to be expected for the entire year.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform with GAAP and general practices within the banking industry. There have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our 2012 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements — ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities applies to derivatives accounted for in accordance with ASC 815 (Derivatives and Hedging), including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities lending transactions that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The effective date of this Update is for fiscal years beginning on or after January 1, 2013 and interim periods within those annual periods.

Adoption of this Update did not impact the Company's consolidated financial statements or the interim notes to the consolidated financial statements.

ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income was issued in the first quarter of 2013 to improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI"). The ASU requires information regarding the impact to net earnings of the reclassification on significant amounts out of AOCI to be presented on either the face of the statement of earnings or in the notes to the financial statements. The amendments in this Update do not change the current reporting requirements for net earnings or AOCI. For public entities, the amendments in this Update are effective prospectively for reporting periods beginning after December 15, 2012. In compliance with the Update, the information required has been included in the Consolidated Statements of Comprehensive Income and Note 5 in these unaudited consolidated financial statements.

Reclassifications — Certain reclassifications have been made to the prior years' financial statements in order to conform to the classifications adopted for reporting in 2013. The reclassifications had no impact on net earnings or shareholders equity.

Table of Contents

2. Investment Securities

The portfolio of investment securities consisted of the following (in thousands):

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government sponsored enterprises	\$ 12,985	\$ 3	\$ 256	\$ 12,732
Obligations of state and political subdivisions	66,301	2,668	217	68,752
GSE mortgage-backed securities	159,092	2,559	2,206	159,445
Collateralized mortgage obligations: residential	85,995	369	1,867	84,497
Collateralized mortgage obligations: commercial	28,096	843	116	28,823
Other asset-backed securities	12,126	457	-	12,583
Collateralized debt obligation	464	3	-	467
	\$ 365,059	\$ 6,902	\$ 4,662	\$ 367,299

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government sponsored enterprises	\$ 13,422	\$ 2	\$ -	\$ 13,424
Obligations of state and political subdivisions	83,093	4,328	-	87,421
GSE mortgage-backed securities	172,932	5,887	-	178,819
Collateralized mortgage obligations: residential	101,381	652	47	101,986
Collateralized mortgage obligations: commercial	28,528	1,233	-	29,761
Other asset-backed securities	12,245	497	-	12,742
Collateralized debt obligation	464	-	-	464
	\$ 412,065	\$ 12,599	\$ 47	\$ 424,617

	June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	\$ 46,763	\$ 57	\$ 2,852	\$ 43,968
GSE mortgage-backed securities	86,024	430	1,032	85,422
Collateralized mortgage obligations: residential	14,776	-	507	14,269
Collateralized mortgage obligations: commercial	16,047	431	-	16,478
	\$ 163,610	\$ 918	\$ 4,391	\$ 160,137

Table of Contents

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	\$42,900	\$ 7	\$ 7	\$42,900
GSE mortgage-backed securities	89,383	2,819	-	92,202
Collateralized mortgage obligations: residential	5,009	-	-	5,009
Collateralized mortgage obligations: commercial	16,232	581	-	16,813
	\$153,524	\$ 3,407	\$ 7	\$156,924

With the exception of 3 private-label collateralized mortgage obligations (“CMOs”) with a combined balance remaining of \$71,000 at June 30, 2013, all of the Company’s CMOs are government-sponsored enterprise (“GSE”) securities.

The amortized cost and fair value of debt securities at June 30, 2013 by contractual maturity are shown in the following table (in thousands) with the exception of other asset-backed securities, mortgage-backed securities, CMOs, and the collateralized debt obligation. Expected maturities may differ from contractual maturities for mortgage-backed securities and CMOs because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	\$ 9,454	\$ 9,581
Due after one year through five years	42,442	43,621
Due after five years through ten years	20,958	22,035
Due after ten years	6,432	6,247
Other asset-backed securities	12,126	12,583
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	245,087	243,942
Commercial	28,096	28,823
Collateralized debt obligation	464	467
	\$ 365,059	\$ 367,299

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	\$ 306	\$ 306
Due after one year through five years	2,063	2,048
Due after five years through ten years	6,528	6,327
Due after ten years	37,866	35,287
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	100,800	99,691
Commercial	16,047	16,478
	\$ 163,610	\$ 160,137

Details concerning investment securities with unrealized losses are as follows (in thousands):

June 30, 2013

Total

Securities with losses under 12 months	Securities with losses over 12 months
Gross Fair Value	Fair Value