

SOUTHSIDE BANCSHARES INC  
Form 10-Q  
November 06, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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 0-12247

SOUTHSIDE BANCSHARES, INC.  
(Exact name of registrant as specified in its charter)

TEXAS  
(State or other jurisdiction of  
incorporation or organization)

75-1848732  
(I.R.S. Employer  
Identification No.)

1201 S. Beckham, Tyler, Texas  
(Address of principal executive offices)

75701  
(Zip Code)

903-531-7111

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities 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

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the issuer's common stock, par value \$1.25, outstanding as of October 23, 2009 was 14,935,039 shares.

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Certification Pursuant to Section 302

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PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share amounts)

	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
Cash and due from banks	\$39,389	\$64,067
Interest earning deposits	4,464	557
Federal funds sold	-	2,150
Total cash and cash equivalents	43,853	66,774
Investment securities:		
Available for sale, at estimated fair value	264,712	278,378
Held to maturity, at cost	1,493	478
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	1,209,571	1,026,513
Held to maturity, at cost	236,072	157,287
Federal Home Loan Bank stock, at cost	36,838	39,411
Other investments, at cost	2,065	2,065
Loans held for sale	4,317	511
Loans:		
Loans	1,015,724	1,022,549
Less: allowance for loan loss	(18,445 )	(16,112 )
Net Loans	997,279	1,006,437
Premises and equipment, net	46,481	42,722
Goodwill	22,034	22,034
Other intangible assets, net	1,186	1,479
Interest receivable	15,545	16,352
Deferred tax asset	-	2,852
Other assets	60,117	36,945
<b>TOTAL ASSETS</b>	<b>\$2,941,563</b>	<b>\$2,700,238</b>
<b>LIABILITIES AND EQUITY</b>		
Deposits:		
Noninterest bearing	\$375,509	\$390,823
Interest bearing	1,411,739	1,165,308
Total Deposits	1,787,248	1,556,131
Short-term obligations:		
Federal funds purchased and repurchase agreements	46,983	10,629
FHLB advances	219,597	229,385
Other obligations	2,433	1,857
Total Short-term obligations	269,013	241,871
Long-term obligations:		
FHLB advances	595,207	655,489
Long-term debt	60,311	60,311
Total Long-term obligations	655,518	715,800

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Deferred tax liability	2,611	-
Other liabilities	23,804	25,347
<b>TOTAL LIABILITIES</b>	<b>2,738,194</b>	<b>2,539,149</b>

Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 12)

Shareholders' equity:		
Common stock - \$1.25 par, 40,000,000 shares authorized, 16,697,300 shares issued in 2009 and 15,756,096 shares issued in 2008	20,872	19,695
Paid-in capital	145,726	131,112
Retained earnings	48,517	34,021
Treasury stock (1,762,261 and 1,731,570 shares at cost)	(23,545 )	(23,115 )
Accumulated other comprehensive income (loss)	11,095	(1,096 )
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>202,665</b>	<b>160,617</b>
Noncontrolling interest	704	472
<b>TOTAL EQUITY</b>	<b>203,369</b>	<b>161,089</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$2,941,563</b>	<b>\$2,700,238</b>

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
(in thousands, except per share data)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
Interest income				
Loans	\$ 17,121	\$ 18,029	\$ 53,316	\$ 54,092
Investment securities – taxable	402	307	1,010	1,377
Investment securities – tax-exempt	2,266	851	5,139	2,829
Mortgage-backed and related securities	15,509	14,883	47,988	38,876
Federal Home Loan Bank stock and other investments	43	180	195	656
Other interest earning assets	58	10	138	101
Total interest income	35,399	34,260	107,786	97,931
Interest expense				
Deposits	5,474	7,257	17,532	25,880
Short-term obligations	1,020	1,986	3,355	7,125
Long-term obligations	6,242	5,209	19,544	11,853
Total interest expense	12,736	14,452	40,431	44,858
Net interest income	22,663	19,808	67,355	53,073
Provision for loan losses	2,973	3,150	9,980	8,336
Net interest income after provision for loan losses	19,690	16,658	57,375	44,737
Noninterest income				
Deposit services	4,543	4,739	12,995	13,823
Gain on sale of securities available for sale	6,706	822	26,413	6,574
Total other-than-temporary impairment losses	-	-	(5,627 )	-
Portion of gain (loss) recognized in other comprehensive income (before taxes)	(993 )	-	3,197	-
Net impairment losses recognized in earnings	(993 )	-	(2,430 )	-
Gain on sale of loans	392	239	1,274	1,551
Trust income	693	678	1,830	1,890
Bank owned life insurance income	325	314	1,362	1,382
Other	847	827	2,376	2,388
Total noninterest income	12,513	7,619	43,820	27,608
Noninterest expense				
Salaries and employee benefits	10,219	10,002	31,163	27,521
Occupancy expense	1,701	1,449	4,684	4,264
Equipment expense	453	327	1,242	968
Advertising, travel & entertainment	546	447	1,549	1,407
ATM and debit card expense	328	313	988	905
Director fees	168	134	480	425
Supplies	254	201	672	584
Professional fees	572	452	1,657	1,239
Postage	247	199	627	565
Telephone and communications	409	270	1,053	785
FDIC Insurance	719	220	3,180	688

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Other	2,135	1,698	5,261	4,997
Total noninterest expense	17,751	15,712	52,556	44,348
Income before income tax expense	14,452	8,565	48,639	27,997
Provision for income tax expense	3,620	2,240	13,021	7,399
Net income	10,832	6,325	35,618	20,598
Less: Net income attributable to the noncontrolling interest	(335 )	(75 )	(1,599 )	(271 )
Net income attributable to Southside Bancshares, Inc.	\$10,497	\$6,250	\$34,019	\$20,327
Earnings per common share – basic	\$0.70	\$0.43	\$2.29	\$1.40
Earnings per common share – diluted	\$0.70	\$0.42	\$2.27	\$1.36
Dividends paid per common share	\$0.14	\$0.16	\$0.41	\$0.41

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(UNAUDITED)

(in thousands, except share amounts)

	Nine Months Ended September 30,	
	2009	2008
<b>Common Stock</b>		
Balance, beginning of period	\$ 19,695	\$ 18,581
Issuance of common stock (232,226 shares in 2009 and 177,933 shares in 2008)	291	223
Stock dividend	886	824
Balance, end of period	20,872	19,628
<b>Paid-in capital</b>		
Balance, beginning of period	131,112	115,250
Issuance of common stock (232,226 shares in 2009 and 177,933 shares in 2008)	1,426	1,344
Stock compensation expense	–	7
Tax benefit of incentive stock options	547	410
Stock dividend	12,641	13,422
Balance, end of period	145,726	130,433
<b>Retained earnings</b>		
Balance, beginning of period	34,021	26,187
Net income attributable to Southside Bancshares, Inc.	34,019	20,327
Cumulative effect of adoption of a new accounting principle on January 1, 2008	–	(351 )
Dividends paid on common stock	(5,996 )	(5,608 )
Stock dividend	(13,527 )	(14,246 )
Balance, end of period	48,517	26,309
<b>Treasury Stock</b>		
Balance, beginning of period	(23,115 )	(22,983 )
Purchase of common stock (30,691 shares in 2009 and 6,713 shares in 2008)	(430 )	(132 )
Balance, end of period	(23,545 )	(23,115 )
<b>Accumulated other comprehensive income (loss)</b>		
Balance, beginning of period	(1,096 )	(4,707 )
Net unrealized gains (losses) on available-for sale securities, net of tax	29,192	(2,218 )
Reclassification adjustment for gains on sales of available-for-sale securities included in net income, net of tax	(17,168 )	(4,273 )
Non-credit portion of other-than-temporary impairment losses on available-for-sale securities, net of tax	(2,078 )	–
Other-than-temporary impairment charges on available-for-sale securities included in net income, net of tax	1,579	–
Adjustment to net periodic benefit cost, net of tax	666	370
Net change in accumulated other comprehensive income (loss)	12,191	(6,121 )
Balance, end of period	11,095	(10,828 )
Total shareholders' equity	202,665	142,427
<b>Noncontrolling interest</b>		
Balance, beginning of period	472	498
Net income attributable to noncontrolling interest shareholders	1,599	271
Capital distribution to noncontrolling interest shareholders	(1,367 )	(584 )
Balance, end of period	704	185



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Total equity	\$203,369	\$	142,612
Comprehensive income			
Net income	\$35,618	\$	20,598
Net change in accumulated other comprehensive income (loss)	12,191		(6,121 )
Total comprehensive income	\$47,809	\$	14,477

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

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(in thousands)

Nine Months Ended  
September 30,  
2009                      2008

OPERATING ACTIVITIES:

Net income	\$35,618	\$20,598
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	2,101	1,820
Amortization of premium	10,491	5,424
Accretion of discount and loan fees	(2,933 )	(2,579 )
Provision for loan losses	9,980	8,336
Stock compensation expense	–	7
Decrease (increase) in interest receivable	807	(1,241 )
Increase in other assets	(799 )	(2,751 )
Net change in deferred taxes	(1,116 )	(867 )
Decrease in interest payable	(1,669 )	(362 )
(Decrease) increase in other liabilities	(431 )	1,384
(Increase) decrease in loans held for sale	(3,806 )	1,347
Gain on sale of securities available for sale	(26,413 )	(6,574 )
Net other-than-temporary impairment losses	2,430	–
Loss on sale of assets	–	81
Loss on disposal of assets	43	–
Impairment on other real estate owned	530	–
Gain on sale of other real estate owned	(18 )	–
Net cash provided by operating activities	24,815	24,623

INVESTING ACTIVITIES:

Proceeds from sales of investment securities available for sale	204,813	80,139
Proceeds from sales of mortgage-backed securities available for sale	512,458	251,236
Proceeds from maturities of investment securities available for sale	55,913	65,055
Proceeds from maturities of mortgage-backed securities available for sale	205,156	93,864
Proceeds from maturities of mortgage-backed securities held to maturity	40,338	25,770
Proceeds from redemption of FHLB stock	3,141	897
Purchases of investment securities available for sale	(231,078 )	(151,318 )
Purchases of investment securities held to maturity	(1,014 )	–
Purchases of mortgage-backed securities available for sale	(887,176 )	(668,188 )
Purchases of mortgage-backed securities held to maturity	(119,611 )	(1,664 )
Purchases of FHLB stock and other investments	(568 )	(15,362 )
Net increase in loans	(5,070 )	(33,870 )
Purchases of premises and equipment	(5,903 )	(2,851 )
Proceeds from sales of premises and equipment	–	367
Proceeds on bank owned life insurance	1,086	713
Proceeds from sales of other real estate owned	864	305
Proceeds from sales of repossessed assets	2,003	2,870
Net cash used in investing activities	(224,648 )	(352,037 )

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

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
(UNAUDITED)  
(in thousands)

	Nine Months Ended September 30,	
	2009	2008
<b>FINANCING ACTIVITIES:</b>		
Net increase in demand and savings accounts	53,373	70,022
Net increase (decrease) in certificates of deposit	162,784	(122,249)
Net increase in federal funds purchased and repurchase agreements	36,354	3,921
Proceeds from FHLB advances	5,249,074	13,874,696
Repayment of FHLB advances	(5,319,144)	(13,513,344)
Net capital distributions from non-controlling interest in consolidated entities	(1,367)	(584)
Tax benefit of incentive stock options	547	410
Purchase of common stock	(430)	(132)
Proceeds from the issuance of common stock	1,717	1,567
Dividends paid	(5,996)	(5,608)
Net cash provided by financing activities	176,912	308,699
Net decrease in cash and cash equivalents	(22,921)	(18,715)
Cash and cash equivalents at beginning of period	66,774	76,004
Cash and cash equivalents at end of period	\$ 43,853	\$ 57,289
<b>SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:</b>		
Interest paid	\$ 42,100	\$ 45,220
Income taxes paid	12,500	8,125
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Acquisition of other repossessed assets and real estate through foreclosure	\$ 7,214	\$ 4,867
5% stock dividend	13,527	14,246
Adjustment to pension liability	(1,024)	(393)
Unsettled trades to purchase securities	(2,158)	(8,441)
Unsettled trades to sell securities	6,168	29,612
Unsettled issuances of brokered CDs	14,875	-

The accompanying notes are an integral part of these consolidated financial statements

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

In this report, the words “the Company,” “we,” “us,” and “our” refer to the combined entities of Southside Bancshares, Inc. and its subsidiaries. The words “Southside” and “Southside Bancshares” refer to Southside Bancshares, Inc. The words “Southside Bank” and “the Bank” refer to Southside Bank (which, subsequent to the internal merger of Fort Worth National Bank (“FWNB”) with and into Southside Bank, includes FWNB). “FWBS” refers to Fort Worth Bancshares, Inc., a bank holding company acquired by Southside of which FWNB was a wholly-owned subsidiary. “SFG” refers to Southside Financial Group, LLC, of which Southside owns a 50% interest and consolidates for financial reporting.

The consolidated balance sheet as of September 30, 2009, and the related consolidated statements of income, equity and cash flows and notes to the financial statements for the three and nine month periods ended September 30, 2009 and 2008 are unaudited; in the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. All significant intercompany accounts and transactions are eliminated in consolidation. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires the use of management’s estimates. These estimates are subjective in nature and involve matters of judgment. Actual amounts could differ from these estimates. We have evaluated subsequent events for potential recognition and or disclosure through November 6, 2009, the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued.

The Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) became effective on July 1, 2009. At that date, the ASC became FASB’s officially recognized source of authoritative U.S. GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (“AICPA”), Emerging Issues Task Force (“EITF”) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2008. All share data has been adjusted to give retroactive recognition to stock splits and stock dividends. For a description of our significant accounting and reporting policies, refer to Note 1 of the Notes to Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

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