

SOUTHEASTERN BANKING CORP

Form 10-K

March 30, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2003

Commission File Number 2-83157

SOUTHEASTERN BANKING CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of

58-1423423
(IRS Employer

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incorporation or organization)

Identification No.)

P. O. Box 455, 1010 Northway, Darien, Georgia 31305

(Address of principal executive offices) (Zip Code)

(912) 437-4141

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$1.25 per share

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the common equity held by non-affiliates of the Registrant as of June 30, 2003 was approximately \$43,485,770 (based on the average bid and asked price on that date as reported on the over-the-counter bulletin board).

As of February 27, 2004, the Registrant had 3,312,539 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 are incorporated by reference in Part IV, Item 15.

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2004 are incorporated by reference in Part III.

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PART I

Item 1. Business.

1. History and Organization. Southeastern Banking Corporation (the Company) and its wholly-owned subsidiary, Southeastern Bank, provide a full line of commercial and retail services to meet the financial needs of individual, corporate, and government customers in southeast Georgia and northeast Florida. The Company's corporate offices are located at 1010 Northway Street, Darien, Georgia.

The Company was formed in 1980 to serve as the parent holding company of its then sole subsidiary bank, The Citizens Bank, Folkston, Georgia, which later changed its name to Southeastern Bank (SEB). In 1983, the Company acquired The Darien Bank, Darien, Georgia. Since 1983, the Company has acquired three additional financial institutions in the southeast Georgia market. These acquisitions were consummated by merging the acquired bank with SEB; the acquired banks were subsequently converted to branches of SEB. In this manner, the Company acquired The Camden County State Bank, Woodbine, Georgia, in 1984; the Jeff Davis Bank, Hazlehurst, Georgia, in 1986; and the Nicholls State Bank, Nicholls, Georgia, in 1988. In 1990, SEB merged with and into The Darien Bank, with The Darien Bank being the surviving bank in the merger operating under its 1888 Charter. Immediately, The Darien Bank changed its name to Southeastern Bank. SEB is a state banking association incorporated under the laws of the State of Georgia.

In 1991, the Company acquired the Folkston, St. Marys, and Douglas, Georgia, offices of First Georgia Savings Bank, a savings bank in Brunswick, Georgia. Offices located in St. Marys and Douglas are now operating as branches of SEB, but the First Georgia office in Folkston was closed and merged into the existing Folkston branch. In 1993, the Company acquired the Folkston and St. Marys offices of Bank South, N.A., Atlanta, Georgia. Both of the acquired offices were closed and merged into existing offices of the Company.

In 1996, the Company acquired the Callahan, Hilliard, and Yulee offices of Compass Bank in northeast Florida's Nassau County. Geographically, Nassau County borders Camden and Charlton Counties in southeast Georgia where the Company has other offices. In 2002, the Company acquired the Richmond Hill office of Valdosta, Georgia-based Park Avenue Bank. Certain loans, property and equipment, and other assets with fair values of approximately \$12,201,000 were acquired, while deposits and other liabilities totaling approximately \$4,270,000 were assumed. Cash balances applied towards the purchase approximated \$8,000,000. Richmond Hill is located approximately ten miles outside the greater Savannah area.

In February 2003, the Company opened a loan production office in Brunswick, Georgia. A full-service banking facility is slated to open there within the next year. Refer to the Loan section of Part II, Item 7 for more details.

SBC Financial Services, the Company's subsidiary which formerly offered insurance agent and investment brokerage services, is now inactive. Insurance and investment services are now being offered directly by Southeastern Bank.

2. Business. SEB, the Company's commercial bank subsidiary, offers a wide range of services to meet the financial needs of its customer base through its branch and ATM network in southeast Georgia and northeast Florida. SEB's primary business comprises traditional deposit and credit services as well as official check services, wire transfers, and safe deposit box rentals. Deposit services offered include time certificates plus NOW, money market, savings, and individual retirement accounts. Credit services include commercial and installment loans, long-term mortgage originations, credit cards, and standby letters of credit. Commercial loans are made primarily to fund real estate construction and to

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meet the needs of customers engaged in the agriculture, timber, seafood, and other industries. Installment loans are made for both consumer and non-consumer purposes. Through an affiliation with Raymond James Financial Services, SEB also provides insurance agent and investment brokerage services. At December 31, 2003, SEB operated fifteen full-service banking offices and one loan production office with total assets exceeding \$374,000,000. A list of SEB offices is provided in Part I, Item 2.

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The Federal Reserve Bank of Atlanta is the principal correspondent of the bank subsidiary; virtually all checks and electronic payments are processed through the Federal Reserve. SEB also maintains accounts with other correspondent banks in Georgia, Florida, and Alabama.

At December 31, 2003, the Company and its subsidiaries had 145 full-time and 16 part-time employees.

3. Competition. The Company has direct competition with other commercial banks, savings and loan associations, and credit unions in each market area. Since mid-1998, intrastate branching restrictions in all of the Company's market areas have been lifted. The removal of intrastate branching restrictions has given the Company opportunities for growth but has also intensified competition as other banks branch into the Company's markets.

The Company faces increasingly aggressive competition from other domestic lending institutions and from numerous other providers of financial services. The ability of nonbanking financial institutions to provide services previously reserved for commercial banks has intensified competition. Because nonbanking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Recent abolishment of certain restrictions between banks, securities firms, and insurance companies will further intensify competition; refer to the Supervision and Regulation section of this Item for more details.

4. Supervision and Regulation. As a bank holding company, the Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (Federal Reserve). SEB, an insured state non-member bank chartered by the Georgia Department of Banking and Finance (GDBF), is subject to supervision and regulation by the GDBF and the Federal Deposit Insurance Corporation (FDIC). SEB is subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be made and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Numerous consumer laws and regulations also affect the operations of SEB. In addition to the impact of regulation, the Company is also significantly affected by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy. The Company's nonbank subsidiary is regulated and supervised by applicable bank, insurance, and various other regulatory agencies.

Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, bank holding companies from any state may acquire banks located in any other state, subject to certain conditions, including concentration limits. In addition, a bank may establish branches across state lines by merging with a bank in another state, subject to certain restrictions.

A number of obligations and restrictions imposed on bank holding companies and their bank subsidiaries by federal law and regulatory policy are designed to reduce potential loss exposure to bank depositors and to the FDIC insurance fund in the event of actual or possible default. For example, under Federal Reserve policy with respect to bank holding company operations, the Company is expected to serve as a source of financial strength to, and commit resources to support, its bank subsidiary where it might refuse absent such policy. The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the applicable institution is well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized, as those terms are defined under regulations issued by each of the federal banking agencies. The Company and its bank subsidiary are considered well-capitalized by their respective federal banking regulators. The Company's capital position is delineated in Note 16 to the consolidated financial statements and in the Capital Adequacy section of Part II, Item 7.

There are various legal and regulatory limits on the amount of dividends and other funds the bank subsidiary may pay or otherwise supply the Company. Additionally, federal and state regulatory agencies have the authority to prevent a bank or bank holding company from engaging in

any activity that, in the opinion of the agency, would constitute an unsafe or unsound practice.

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On November 12, 1999, financial modernization legislation known as the Gramm-Leach-Bliley Act (the Act) was signed into law. Under the Act, a bank holding company which elects to become a financial holding company may engage in expanded financial activities, including insurance and securities underwriting, and may also acquire securities and insurance companies, subject in each case to certain conditions. Securities firms and insurance companies may also choose to establish or become financial holding companies and thereby acquire banks, also subject to certain conditions. The abolishment of certain restrictions between banks, securities firms, and insurance companies provides both challenges and opportunities to the Company. The Company has no present intention to change its status from a bank holding company to a financial holding company.

The Sarbanes-Oxley Act of 2002 and its impact on the Company is discussed in the Corporate Governance section of Part II, Item 7.

There have been a number of legislative and regulatory proposals that would have an impact on the operation of bank holding companies and their subsidiaries. It is impossible to predict whether or in what form these proposals may be adopted in the future and, if adopted, what their effect will be on the Company.

5. Securities Exchange Act Reports. Through its Internet website at www.southeasternbank.com, the Company provides a direct link to its Securities and Exchange Act filings. Reports accessible from this link include annual reports on Form 10-K, quarterly reports on 10-Q, and current reports on Form 8-K.

Item 2. Properties.

Company Property. The Company's executive offices are located in SEB's main banking office at 1010 Northway Street, Darien, Georgia.

Banking Facilities. Besides its main office in Darien, SEB has fifteen other banking offices in northeast Florida and southeast Georgia as shown in the table below:

Banking Offices

Florida	1948 S. Kings Road	1376 E. State Road 200
	Nassau County	Nassau County
	Callahan, Florida 32011	Yulee, Florida 32097
	7964 W. County Road 108	
	Nassau County	
Georgia	Hilliard, Florida 32046	
	620 S. Peterson Street	110 Bacon Street
	Coffee County	Brantley County

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Douglas, Georgia 31533

Highway 17

McIntosh County

Eulonia, Georgia 31331

Nahunta, Georgia 31553

910 Van Streat Highway

Coffee County

Nicholls, Georgia 31554

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Banking Offices, continued:

Georgia	101 Love Street	2004 Highway 17
	Charlton County	Bryan County
	Folkston, Georgia 31537	Richmond Hill, Georgia 31324
	14 Hinson Street	2512 Osborne Road
	Jeff Davis County	Camden County
	Hazlehurst, Georgia 31539	St. Marys, Georgia 31558
	107 E. Main Street	Bedell Avenue & Highway 17
	Brantley County	Camden County
	Hoboken, Georgia 31542	Woodbine, Georgia 31569
	Highway 40 East	650 Scranton Road*
	Camden County	Glynn County
	Kingsland, Georgia 31548	Brunswick, Georgia 31520

* Loan production office.

The Company owns all of its main office and branch facilities but leases its loan production office from a third party. The annual lease expense for the Brunswick space approximates \$15,000; the remaining term of the lease is less than one year. See Note 6 to the consolidated financial statements for further property information.

Item 3. Legal Proceedings.

The Company and its subsidiaries are parties to claims and lawsuits arising in the course of their normal business activities. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management and counsel that none of these matters, when resolved, will have a material effect on the Company's consolidated results of operations or financial position.

Item 4. Submission Of Matters to a Vote of Security Holders.

None

PART II

Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities.

The Company's stock trades publicly over-the-counter under the symbol SEBC. The high and low sales prices shown below are based on information being posted to electronic bulletin boards by market-makers in the Company's stock. These market prices may include dealer mark-up, markdown, and/or commission. Prices paid on treasury stock purchases are excluded from these results.

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The table below sets forth the high and low sales prices and the cash dividends declared on the Company's common stock during the periods indicated:

Market Sales Price & Dividends Declared	Quarter	Sales Price		Dividends
		High	Low	Declared
2003	4 th	25.90	22.00	0.64
	3 rd	22.00	20.50	0.12
	2 nd	24.50	19.00	0.12
	1 st	20.50	17.76	0.12
2002	4 th	18.00	17.35	0.655
	3 rd	19.50	16.16	0.115
	2 nd	17.50	14.75	0.115
	1 st	15.50	13.30	0.115
2001	4 th	15.50	13.06	0.67
	3 rd	15.75	14.30	0.11
	2 nd	16.50	13.00	0.11
	1 st	15.75	14.25	0.11

The Company had approximately 500 shareholders of record at December 31, 2003.

The Company has paid regular cash dividends on a quarterly basis every year since its inception. Additionally, in recent years, the Company has declared a special dividend in the fourth quarter of each year. Management anticipates that the Company will continue to pay regular and special cash dividends. See the Capital Adequacy section of Part II, Item 7 for particulars on an extraordinary cash dividend declared by the Company the last three years.

The Company is a legal entity separate and distinct from its subsidiaries, and its revenues depend primarily on the payment of dividends from its subsidiaries. State banking regulations limit the amount of dividends the Company's bank subsidiary may pay without prior approval of the regulatory agencies. The amount of cash dividends available from the bank subsidiary for payment in 2004 without such prior approval is approximately \$2,611,000.

The Company manages capital through dividends and share repurchases authorized by the Board of Directors. Capital needs are assessed based on expected growth and the current economic climate. In 2003, the Company repurchased 20,600 shares at an aggregate price of \$475,904 and in 2002, 52,331 shares at an aggregate price of \$876,545. As of December 31, 2003, the Company was authorized to purchase treasury shares valued at \$5,399,833 under current Board resolutions. There is no expiration date for the treasury authorization.

Treasury purchases made during 2003 are summarized in the table below:

Share	Total Number of Shares	Average Price Paid	Number of Shares Purchased as Part of	Maximum Dollar Value of Shares that May Yet
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<u>Repurchases - 2003</u>	<u>Purchased</u>	<u>per Share</u>	<u>Publicly Announced Plans or Programs</u>	<u>be Purchased under the Plans or Programs¹</u>
January - August				\$ 2,875,737
September	2,600	\$ 21.50	2,600	2,819,837
October	15,000	23.00	15,000	2,474,833
November				2,474,833
December	3,000	25.00	3,000	5,399,833
	<u> </u>	<u> </u>	<u> </u>	
Total	20,600	\$ 23.10	20,600	
	<u> </u>	<u> </u>	<u> </u>	

¹ On December 9, 2003, the Board of Directors increased the original authorization (March 14, 2000) for treasury stock purchases from \$7,000,000 to \$10,000,000.

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Selected financial data for the last five years is provided in the table below:

Financial Data	2003	2002	2001	2000	1999
<i>(Dollars in thousands except per share data)</i>					
At December 31:					
Total assets	\$ 374,368	\$ 378,140	\$ 355,215	\$ 349,579	\$ 340,545
Loans, net of unearned income	205,680	174,981	163,348	173,802	165,994
Allowance for loan losses	3,833	3,601	3,135	3,160	3,223
Investment securities	131,759	153,323	157,620	145,055	145,912
Deposits	316,963	317,848	298,707	295,736	290,284
Long-term debt	5,000	5,000	5,000	5,000	
Treasury stock	4,600	4,124	3,248	2,486	
Realized stockholders' equity	46,599	45,193	44,656	44,710	44,028
For the Year:					
Net interest income	\$ 16,385	\$ 15,333	\$ 14,616	\$ 15,539	\$ 15,084
Provision for loan losses	968	1,074	1,200	1,200	1,200
Net income	5,201	4,759	4,097	4,935	4,849
Common dividends paid	3,383	3,430	1,842	1,654	1,743
Per Common Share:					
Basic earnings	\$ 1.56	\$ 1.42	\$ 1.21	\$ 1.42	\$ 1.35
Dividends declared	1.00	1.00	1.00	0.51	0.47
Book value	14.07	13.56	13.19	13.01	12.30
Financial Ratios:					
Return on average assets	1.42%	1.30%	1.15%	1.41%	1.43%
Return on beginning equity	11.51	10.66	9.16	11.21	11.87
Tier 1 capital ratio	19.06	20.76	23.45	23.05	23.56
Total capital ratio	20.32	22.01	24.71	24.30	24.82
Tier 1 leverage ratio	12.56	12.14	12.32	12.56	12.57

The book value per share and equity ratios exclude the effects of mark-to-market accounting for investment securities. In accordance with generally accepted accounting principles, prior period amounts have not been restated to reflect the treasury stock purchases made from 2000 - 2003.

Business Combinations and Divestitures/New Offices

The financial data in the table above reflects the following developments:

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In February 2003, the Company opened a loan production office in Brunswick, Georgia. Approximately 52% of the new loan production in 2003 was attributable to this office.

On January 31, 2002, the Company acquired the Richmond Hill office of Valdosta, Georgia-based Park Avenue Bank. The Company received certain loans, property and equipment, and other assets with fair values of approximately \$12,201,000, while assuming deposits and other liabilities totaling approximately \$4,270,000. Cash balances applied towards the purchase approximated \$8,000,000. A deposit premium of \$100,000 was recorded in conjunction with the transaction.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Analysis should be read in conjunction with the consolidated financial statements and related notes. The Company's accounting policies, which are described in Note 1 to the financial statements and in the Critical Accounting Policies section of this Analysis, are integral to understanding the results reported. The Company's accounting policies require management's judgment in valuing assets, liabilities, commitments, and contingencies. A variety of factors could affect the ultimate value that is obtained when earning income, recognizing an expense, recovering an asset, or relieving a liability. This Analysis contains forward-looking statements with respect to business and financial matters. Actual results may vary significantly from those contained in these forward-looking statements. See the section entitled Forward-Looking Statements on the last page of this Analysis.

DESCRIPTION OF BUSINESS

Southeastern Banking Corporation (the Company), with assets exceeding \$374,300,000, is a financial services company with operations in southeast Georgia and northeast Florida. Southeastern Bank (SEB), the Company's principal subsidiary, offers a full line of commercial and retail services to meet the financial needs of its customer base through its fifteen branch locations, loan production office in Brunswick, Georgia, and ATM network. Services offered include traditional deposit and credit services, long-term mortgage originations, and credi