

SOUTHSIDE BANCSHARES INC
Form 10-Q/A
November 16, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2007

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

75701

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares of the issuer's common stock, par value \$1.25, outstanding as of July 26, 2007 was 13,081,616 shares.

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Certification Pursuant to Section 302

Certification Pursuant to Section 302

Certification Pursuant to Section 906

EXPLANATORY NOTE

Southside Bancshares, Inc. (the “Company”) hereby amends the Company’s Quarterly Report on the Form 10-Q for the six months ended June 30, 2007, originally filed with the Securities and Exchange Commission on August 6, 2007.

This amendment is being filed to reflect the restatement of the Company’s Consolidated Statement of Cash Flows, as discussed in Note 2 contained herein, and other information related to such restated financial information. Except for Items 1 and 4 of Part I, no other information included in the original report on Form 10-Q is amended by this Form 10-Q/A.

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

(in thousands, except share amounts)

	June 30, 2007	December 31, 2006
ASSETS		
Cash and due from banks	\$ 43,762	\$ 52,537
Interest earning deposits	544	550
Federal funds sold	11,850	1,925
Total cash and cash equivalents	56,156	55,012
Investment securities:		
Available for sale, at estimated fair value	88,566	98,952
Held to maturity, at cost	1,353	1,351
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	599,326	643,164
Held to maturity, at cost	207,262	226,162
Federal Home Loan Bank stock, at cost	15,540	25,614
Other investments, at cost	881	882
Loans held for sale	5,042	3,909
Loans:		
Loans	768,739	759,147
Less: allowance for loan losses	(7,367)	(7,193)
Net Loans	761,372	751,954
Premises and equipment, net	35,268	32,641
Interest receivable	9,921	10,110
Deferred tax asset	10,456	8,678
Other assets	30,633	32,547
TOTAL ASSETS	\$ 1,821,776	\$ 1,890,976
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 328,361	\$ 325,771
Interest bearing	1,007,989	956,704
Total Deposits	1,336,350	1,282,475
Short-term obligations:		
Federal funds purchased	-	5,675
FHLB Dallas advances	239,826	322,241
Other obligations	1,511	1,605
Total Short-term obligations	241,337	329,521
Long-term obligations:		
FHLB Dallas advances	89,393	129,379
Long-term debt	20,619	20,619
Total Long-term obligations	110,012	149,998
Other liabilities	18,583	18,378
TOTAL LIABILITIES	1,706,282	1,780,372

Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 10)

Shareholders' equity:

Common stock: (\$1.25 par, 20,000,000 shares authorized, 14,805,225 and 14,075,653 shares issued)	18,507	17,594
Paid-in capital	114,462	100,736
Retained earnings	21,392	29,648
Treasury stock (1,724,857 and 1,718,737 shares at cost)	(22,983)	(22,850)
Accumulated other comprehensive loss	(15,884)	(14,524)
TOTAL SHAREHOLDERS' EQUITY	115,494	110,604
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,821,776	\$ 1,890,976

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		Six Months	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Interest income				
Loans	\$ 12,733	\$ 11,328	\$ 25,247	\$ 21,956
Investment securities – taxable	616	594	1,452	1,337
Investment securities – tax-exempt	505	490	1,012	1,089
Mortgage-backed and related securities	10,163	11,149	21,097	21,386
Federal Home Loan Bank stock and other investments	330	350	700	694
Other interest earning assets	33	14	69	32
Total interest income	24,380	23,925	49,577	46,494
Interest expense				
Deposits	10,025	7,404	19,590	13,658
Short-term obligations	2,776	4,037	6,722	7,587
Long-term obligations	1,518	1,947	3,178	4,143
Total interest expense	14,319	13,388	29,490	25,388
Net interest income	10,061	10,537	20,087	21,106
Provision for loan losses	217	448	334	729
Net interest income after provision for loan losses	9,844	10,089	19,753	20,377
Non interest income				
Deposit services	4,270	3,947	8,198	7,416
Gain on sale of securities available for sale	6	101	435	224
Gain on sale of loans	724	469	1,069	842
Trust income	576	403	1,040	807
Bank owned life insurance income	268	265	532	509
Other	818	782	1,526	1,267
Total non interest income	6,662	5,967	12,800	11,065
Non interest expense				
Salaries and employee benefits	7,298	7,310	14,402	14,730
Occupancy expense	1,190	1,201	2,358	2,374
Equipment expense	242	225	470	428
Advertising, travel & entertainment	449	472	870	924
ATM and debit card expense	242	275	496	445
Director fees	141	167	268	312
Supplies	188	168	336	352
Professional fees	240	318	551	633
Postage	155	155	303	305
Telephone and communications	193	191	384	354
Other	1,118	1,081	2,254	2,140
Total non interest expense	11,456	11,563	22,692	22,997
Income before income tax expense	5,050	4,493	9,861	8,445
Provision for income tax expense	463	950	1,511	1,674
Net Income	\$ 4,587	\$ 3,543	\$ 8,350	\$ 6,771
Earnings per common share –basic	\$ 0.35	\$ 0.28	\$ 0.64	\$ 0.53
Earnings per common share –diluted	\$ 0.34	\$ 0.27	\$ 0.62	\$ 0.51

Dividends declared per common share	\$	0.12	\$	0.11	\$	0.23	\$	0.22
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The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(in thousands, except share amounts)

	Compre-hensive Income	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Compre- hensive Income (Loss)	Total Share-holders Equity
Balance at December 31, 2005		\$ 16,633	\$ 87,962	\$ 32,054	\$ (22,850)	\$ (4,509)	\$ 109,290
Net Income	\$ 6,771			6,771			6,771
Other comprehensive loss, net of tax							
Unrealized losses on securities, net of reclassification adjustment (see Note 4)	(9,167)					(9,167)	(9,167)
Comprehensive loss	\$ (2,396)						
Common stock issued (94,803 shares)		119	714				833
Stock compensation expense			14				14
Tax benefit of incentive stock options			41				41
Dividends paid on common stock				(2,626)			(2,626)
Stock dividend		728	10,978	(11,706)			—
Balance at June 30, 2006		\$ 17,480	\$ 99,709	\$ 24,493	\$ (22,850)	\$ (13,676)	\$ 105,156
Balance at December 31, 2006		\$ 17,594	\$ 100,736	\$ 29,648	\$ (22,850)	\$ (14,524)	\$ 110,604
Net Income	\$ 8,350			8,350			8,350
Other comprehensive income, net of tax							
Unrealized losses on securities, net of reclassification adjustment	(1,533)					(1,533)	(1,533)

(see Note 4)

Adjustment to net periodic benefit cost (see Note 4)		173			173	173
Comprehensive Income	\$	6,990				
Common stock issued (108,634 shares)			137	788		925
Stock compensation expense				14		14
Tax benefit of incentive stock options				21		21
Dividends paid on common stock					(2,927)	(2,927)
Purchase of 6,120 shares of common stock					(133)	(133)
Stock dividend			776	12,903	(13,679)	—
Balance at June 30, 2007	\$	18,507	\$	114,462	\$	21,392
					\$	(22,983)
					\$	(15,884)
					\$	115,494

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)

	Six Months Ended June 30,	
	2007	2006 (Restated)
OPERATING ACTIVITIES:		
Net income	\$ 8,350	\$ 6,771
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,085	1,132
Amortization of premium	2,445	3,066
Accretion of discount and loan fees	(1,314)	(929)
Provision for loan losses	334	729
Stock compensation expense	14	14
Decrease (increase) in interest receivable	189	(659)
Decrease in other assets	1,585	208
Net change in deferred taxes	(1,077)	(176)
(Decrease) increase in interest payable	(134)	338
(Decrease) increase in other liabilities	(434)	3,155
Increase in loans held for sale	(1,133)	(2,839)
Gain on sale of available for sale securities	(435)	(224)
Gain on sale of assets	–	(1)
Loss on sale of other real estate owned	1	–
Net cash provided by operating activities	9,476	10,585
INVESTING ACTIVITIES:		
Proceeds from sales of investment securities available for sale	4,953	39,197
Proceeds from sales of mortgage-backed securities available for sale	51,430	30,651
Proceeds from maturities of investment securities available for sale	57,891	14,175
Proceeds from maturities of mortgage-backed securities available for sale	50,874	53,060
Proceeds from maturities of mortgage-backed securities held to maturity	20,596	16,683
Proceeds from redemption of Federal Home Loan Bank stock	10,729	2,019
Purchases of investment securities available for sale	(51,789)	(23,027)
Purchases of investment securities held to maturity	–	(1,348)
Purchases of mortgage-backed securities available for sale	(60,474)	(157,067)
Purchases of mortgage-backed securities held to maturity	(2,180)	(41,282)
Purchases of Federal Home Loan Bank stock and other investments	(654)	(657)
Net increase in loans	(10,048)	(45,119)
Purchases of premises and equipment	(3,712)	(933)
Proceeds from sales of premises and equipment	–	1
Proceeds from sales of other real estate owned	334	45
Proceeds from sales of repossessed assets	191	185
Net cash provided by (used in) investing activities	68,141	(113,417)

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

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

	Six Months Ended June 30,	
	2007	2006
FINANCING ACTIVITIES:		
		(Restated)
Net increase in demand and savings accounts	21,773	5,388
Net increase in certificates of deposit	31,944	78,801
Net (decrease) increase in federal funds purchased	(5,675)	10,600
Proceeds from FHLB Advances	2,786,999	3,608,804
Repayment of FHLB Advances	(2,909,400)	(3,603,261)
Tax benefit of incentive stock options	21	41
Purchases of common stock	(133)	—
Proceeds from the issuance of common stock	925	833
Dividends paid	(2,927)	(2,626)
Net cash (used in) provided by financing activities	(76,473)	98,580
Net increase (decrease) in cash and cash equivalents	1,144	(4,252)
Cash and cash equivalents at beginning of period	55,012	51,829
Cash and cash equivalents at end of period	\$ 56,156	\$ 47,577
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Interest paid	\$ 29,624	\$ 25,050
Income taxes paid	2,000	1,150
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of other repossessed assets and real estate through foreclosure	\$ 197	\$ 957
Payment of 5% stock dividend	13,679	11,706
Adjustment to pension liability	(262)	—
Unsettled trades to purchase securities	(941)	—

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

The term "Company" is used throughout this report to refer to Southside Bancshares, Inc. and its subsidiaries. The term "Bank" is used to refer to Southside Bank wherever a distinction between Southside Bancshares, Inc. and Southside Bank aids in the understanding of this report.

The consolidated balance sheet as of June 30, 2007, and the related consolidated statements of income, shareholders' equity and cash flows and notes to the financial statements for the three and six month periods ended June 30, 2007 and 2006 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.

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/A for the year ended December 31, 2006. 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/A for the year ended December 31, 2006.

2. Restatement of the Statement of Cash Flows for the Six Months Ended June 30, 2006

On November 13, 2007, the Company filed a Form 8-K reporting that management concluded that certain cash flows from operating, investing and financing activities were incorrect in several of the Company's historical Consolidated Statement of Cash Flows. Management amended its Form 10-K for the year ended December 31, 2006, to restate the Consolidated Statement of Cash Flows for the years ended December 31, 2006, 2005 and 2004.

The restatements for the periods described above were caused by the lack of a non-cash adjustment that should have been reflected in the Company's Consolidated Statement of Cash Flows in accordance with Statement of Financial Accounting Standard No. 95, Statement of Cash Flows. Securities and brokered deposit trades generally settle in cash several days after the contractual trade date, although generally accepted accounting principles require us to recognize trades as of the trade date. In the accounting periods being restated, the Company failed to recognize those trades that were between the trade date and settlement date, and therefore had not yet been consummated in the exchange of cash. These unsettled trades historically had been reflected in the Company's Consolidated Statement of Cash Flows as actual cash flows from operating activities, with corresponding activity in cash flows from investing activities for the unsettled securities trades, and a corresponding activity in cash flows from financing activities for the unsettled brokered deposit trades. These unsettled trades should have instead been reflected as non-cash adjustments and reported in the Supplemental Disclosures of Noncash Investing and Financing Activities.

For all periods restated there was no change in the Company's Total Cash and Cash Equivalents, Net Increase in Cash and Cash Equivalents, Consolidated Statements of Income, Consolidated Balance Sheets or Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income. Accordingly, the Company's historical revenues, net income, earnings per share, total assets and regulatory capital remain unchanged.

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For the six months ended June 30, 2006, there was no adjustment required to be made to cash flows from financing activities as originally reported. The table below reflects the changes made to the Statement of Cash Flows for the six months ended June 30, 2006, to appropriately reflect the impact of unsettled securities transactions that occurred during the six months then ended:

	For the six months ended June 30, 2006 (in thousands)		
	As Originally Reported	Adjustment	As Restated
(Decrease) increase in other liabilities	\$ (4,378)	\$ 7,533	\$ 3,155
Net cash provided by operating activities	3,052	7,533	10,585
Purchases of mortgage-backed securities held to maturity	(33,749)	(7,533)	(41,282)
Net cash provided by (used) in investing activities	(105,884)	(7,533)	(113,417)

3. Earnings Per Share

Earnings per share on a basic and diluted basis has been adjusted to give retroactive recognition to stock splits and stock dividends and is calculated as follows (in thousands, except per share amounts):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2007	2006	2007	2006
Basic Earnings and Shares:				
Net Income	\$ 4,587	\$ 3,543	\$ 8,350	\$ 6,771
Weighted-average basic shares outstanding	13,035	12,853	13,008	12,830
Basic Earnings Per Share:				
Net Income	\$ 0.35	\$ 0.28	\$ 0.64	\$ 0.53
Diluted Earnings and Shares:				
Net Income	\$ 4,587	\$ 3,543	\$ 8,350	\$ 6,771
Weighted-average basic shares outstanding	13,035	12,853	13,008	12,830
Add: Stock options	401	484	421	496
Weighted-average diluted shares outstanding	13,436	13,337	13,429	13,326
Diluted Earnings Per Share:				
Net Income	\$ 0.34	\$ 0.27	\$ 0.62	\$ 0.51

For the three and six month periods ended June 30, 2007 and 2006, there were no antidilutive options.

4. Comprehensive Income (Loss)

The components of other comprehensive income (loss) are as follows (in thousands):

	Six Months Ended June 30, 2007		
	Before-Tax	Tax	Net-of-Tax
	Amount	(Expense) Benefit	Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period	\$ (1,888)	\$ 642	\$ (1,246)
Less: reclassification adjustment for gains included in net income	435	(148)	287
Net unrealized losses on securities	(2,323)	790	(1,533)
Adjustment to net periodic benefit cost	262	(89)	173
Other comprehensive loss	\$ (2,061)	\$ 701	\$ (1,360)

	Three Months Ended June 30, 2007		
	Before-Tax	Tax	Net-of-Tax
	Amount	(Expense) Benefit	Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period	\$ (5,556)	\$ 1,889	\$ (3,667)
Less: reclassification adjustment for gains included in net income	6	(2)	4
Net unrealized losses on securities	(5,562)	1,891	(3,671)
Adjustment to net periodic benefit cost	104	(35)	69
Other comprehensive loss	\$ (5,458)	\$ 1,856	\$ (3,602)

	Six Months Ended June 30, 2006		
	Before-Tax	Tax	Net-of-Tax
	Amount	(Expense) Benefit	Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period	\$ (13,665)	\$ 4,646	\$ (9,019)
Less: reclassification adjustment for gains included in net income	224	(76)	148
Net unrealized losses on securities	(13,889)	4,722	(9,167)
Other comprehensive loss	\$ (13,889)	\$ 4,722	\$ (9,167)

	Three Months Ended June 30, 2006		
	Before-Tax	Tax	Net-of-Tax
	Amount	(Expense) Benefit	Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period	\$ (5,982)	\$ 2,034	\$ (3,948)

Less: reclassification adjustment for gains included in net income	101	(34)	67
Net unrealized losses on securities	(6,083)	2,068	(4,015)
Other comprehensive loss	\$ (6,083)	\$ 2,068	\$ (4,015)

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5. Securities

The amortized cost and estimated market value of investment and mortgage-backed securities as of June 30, 2007 and December 31, 2006, are reflected in the tables below (in thousands):

	June 30, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
AVAILABLE FOR SALE:				
Investment Securities:				
U.S. Treasury	\$ 18,157	\$ -	\$ 1,051	\$ 17,106
Government Sponsored Enterprise Debentures	8,999	-	2	8,997
State and Political Subdivisions	54,361	1,077	480	54,958
Other Stocks and Bonds	7,591	9	95	7,505
Mortgage-backed Securities:				
U.S. Government Agencies	73,596	274	1,669	72,201
Government Sponsored Enterprises	527,797	896	8,196	520,497
Other Private Issues	6,711	39	122	6,628
Total	\$ 697,212	\$ 2,295	\$ 11,615	\$ 687,892
HELD TO MATURITY:				
Investment Securities:				
Other Stocks and Bonds	\$ 1,353	\$ 14	\$ -	\$ 1,367
Mortgage-backed Securities:				