

SOUTHSIDE BANCSHARES INC  
Form 10-Q  
May 09, 2008

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 March 31, 2008

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Small reporting company

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 April 25, 2008 was 13,818,622 shares.

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TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 1A. RISK FACTORS

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS

SIGNATURES

Exhibit Index

Master Software License Maintenance and Services Agreement dated February 4, 2008, by and between Southside Bank and Jack Henry & Associates, Inc.

Certification Pursuant to Section 302

Certification Pursuant to Section 302

Certification Pursuant to Section 906

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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)

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
Cash and due from banks	\$ 52,318	\$ 74,040
Interest earning deposits	725	1,414
Federal funds sold	9,325	550
Total cash and cash equivalents	62,368	76,004
Investment securities:		
Available for sale, at estimated fair value	179,430	109,928
Held to maturity, at cost	476	475
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	702,928	727,553
Held to maturity, at cost	183,555	189,965
Federal Home Loan Bank and FRB stock, at cost	26,175	19,850
Other investments, at cost	2,069	2,069
Loans held for sale	3,416	3,361
Loans:		
Loans	980,879	961,230
Less: allowance for loan losses	(10,611)	(9,753)
Net Loans	970,268	951,477
Premises and equipment, net	39,937	40,249
Goodwill	22,034	21,639
Other intangible assets, net	1,808	1,925
Interest receivable	12,369	11,784
Deferred tax asset	1,305	4,320
Other assets	54,733	35,723
<b>TOTAL ASSETS</b>	<b>\$ 2,262,871</b>	<b>\$ 2,196,322</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest bearing	\$ 367,835	\$ 357,083
Interest bearing	1,074,834	1,173,408
Total Deposits	1,442,669	1,530,491
Short-term obligations:		
Federal funds purchased and repurchase agreements	9,020	7,023
FHLB advances	325,404	353,792
Other obligations	1,240	2,500
Total Short-term obligations	335,664	363,315
Long-term obligations:		
FHLB advances	255,562	86,247
Long-term debt	60,311	60,311
Total Long-term obligations	315,873	146,558
Other liabilities	26,258	23,132
<b>TOTAL LIABILITIES</b>	<b>2,120,464</b>	<b>2,063,496</b>

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

Minority interest in Southside Financial Group	260	498
Shareholders' equity:		
Common stock - \$1.25 par, 20,000,000 shares authorized, 15,543,029 shares issued in 2008 (including 659,261 shares issued on April 28, 2008 as a stock dividend) and 14,865,134 shares issued in 2007	19,428	18,581
Paid-in capital	128,934	115,250
Retained earnings	15,559	26,187
Treasury stock (1,724,857 shares at cost)	(22,983)	(22,983)
Accumulated other comprehensive income (loss)	1,209	(4,707)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>142,147</b>	<b>132,328</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 2,262,871</b>	<b>\$ 2,196,322</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 Ended March 31,	
	2008	2007
Interest income		
Loans	\$ 18,296	\$ 12,514
Investment securities – taxable	680	836
Investment securities – tax-exempt	818	507
Mortgage-backed and related securities	11,973	10,934
Federal Home Loan Bank stock and other investments	262	370
Other interest earning assets	67	36
Total interest income	32,096	25,197
Interest expense		
Deposits	10,755	9,565
Short-term obligations	3,300	3,946
Long-term obligations	2,671	1,660
Total interest expense	16,726	15,171
Net interest income	15,370	10,026
Provision for loan losses	2,239	117
Net interest income after provision for loan losses	13,131	9,909
Noninterest income		
Deposit services	4,417	3,928
Gain on securities available for sale	2,092	429
Gain on sale of loans	465	345
Trust income	593	464
Bank owned life insurance income	310	264
Other	825	708
Total noninterest income	8,702	6,138
Noninterest expense		
Salaries and employee benefits	8,713	7,104
Occupancy expense	1,388	1,168
Equipment expense	312	228
Advertising, travel & entertainment	464	421
ATM and debit card expense	288	254
Director fees	144	127
Supplies	177	148
Professional fees	434	311
Postage	184	148
Telephone and communications	258	191
Other	1,989	1,136
Total noninterest expense	14,351	11,236
Income before income tax expense	7,482	4,811
Provision for income tax expense	1,936	1,048
Net Income	\$ 5,546	\$ 3,763
Earnings per common share –basic	\$ 0.40	\$ 0.28
Earnings per common share –diluted	\$ 0.39	\$ 0.27
Dividends declared per common share	\$ 0.12	\$ 0.11

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

2

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(UNAUDITED)

(in thousands, except share amounts)

	Comprehensive Income	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accu-mulated Other Compre- hensive Income (Loss)	Total Share-holders Equity
Balance at December 31, 2006		\$ 17,594	\$ 100,736	\$ 29,648	\$ (22,850)	\$ (14,524)	\$ 110,604
Net Income	\$ 3,763			3,763			3,763
Other comprehensive income, net of tax							
Unrealized gains on securities, net of reclassification adjustment (see Note 3)	2,138					2,138	2,138
Adjustment to net periodic benefit cost (see Note 3)	104					104	104
Comprehensive income	\$ 6,005						
Common stock issued (25,813 shares)		32	267				299
Stock compensation expense			7				7
Tax benefit of incentive stock options			2				2
Dividends paid on common stock				(1,361)			(1,361)
Balance at March 31, 2007		\$ 17,626	\$ 101,012	\$ 32,050	\$ (22,850)	\$ (12,282)	\$ 115,556
Balance at December 31, 2007		\$ 18,581	\$ 115,250	\$ 26,187	\$ (22,983)	\$ (4,707)	\$ 132,328
Net Income	\$ 5,546			5,546			5,546
Other comprehensive income, net of tax							

Unrealized gains on securities, net of reclassification adjustment (see Note 3)	5,723				5,723			5,723
Adjustment to net periodic benefit cost (see Note 3)	193				193			193
Comprehensive Income	\$ 11,462							
Common stock issued (18,634 shares)		23	241					264
Stock compensation expense			7					7
Tax benefit of incentive stock options			14					14
Cumulative effect of adoption of a new accounting principle on January 1, 2008 (see Note 11)					(351)			(351)
Dividends paid on common stock					(1,577)			(1,577)
Stock dividend		824	13,422		(14,246)			-
Balance at March 31, 2008	\$ 19,428	\$ 128,934	\$ 15,559	\$ (22,983)	\$ 1,209	\$ 142,147		

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)

Three Months Ended  
March 31,  
2008                      2007

## OPERATING ACTIVITIES:

Net income	\$ 5,546	\$ 3,763
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	604	540
Amortization of premium	1,914	1,253
Accretion of discount and loan fees	(1,114)	(808)
Provision for loan losses	2,239	117
Stock compensation expense	7	7
(Increase) decrease in interest receivable	(585)	642
Decrease in other assets	396	1,677
Net change in deferred taxes	(61)	(408)
Decrease in interest payable	(367)	(242)
Increase in other liabilities	1,245	1,400
(Increase) decrease in loans held for sale	(55)	1,100
Gain on securities available-for-sale	(2,092)	(429)
Loss on sale of assets	2	-
Loss on sale of other real estate owned	6	1
Earnings allocated to minority interest	48	-
Net cash provided by operating activities	7,733	8,613

## INVESTING ACTIVITIES:

Proceeds from sales of investment securities available for sale	9,341	4,953
Proceeds from sales of mortgage-backed securities available for sale	95,755	50,684
Proceeds from maturities of investment securities available for sale	31,114	54,601
Proceeds from maturities of mortgage-backed securities available for sale	28,394	25,305
Proceeds from maturities of mortgage-backed securities held to maturity	7,877	10,066
Proceeds from redemption of Federal Home Loan Bank stock	-	5,501
Purchases of investment securities available for sale	(100,812)	(51,789)
Purchases of mortgage-backed securities available for sale	(116,652)	(21,650)
Purchases of mortgage-backed securities held to maturity	(1,664)	-
Purchases of Federal Home Loan Bank stock and other investments	(6,325)	(338)
Net increase in loans	(21,614)	(7,434)
Purchases of premises and equipment	(652)	(2,994)
Proceeds from sales of premises and equipment	358	-
Proceeds from sales of other real estate owned	75	322
Proceeds from sales of repossessed assets	860	125
Net cash (used in) provided by investing activities	(73,945)	67,352

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)

	Three Months Ended March 31,	
	2008	2007
<b>FINANCING ACTIVITIES:</b>		
Net (decrease) increase in demand and savings accounts	(2,084)	10,327
Net (decrease) increase in certificates of deposit	(86,679)	16,462
Net increase (decrease) in federal funds purchased and repurchase agreements	1,997	(5,675)
Proceeds from FHLB Advances	4,012,699	1,793,395
Repayment of FHLB Advances	(3,871,772)	(1,891,312)
Net capital distributions from minority interest investment in consolidated entities	(286)	-
Tax benefit of incentive stock options	14	2
Proceeds from the issuance of common stock	264	299
Dividends paid	(1,577)	(1,361)
Net cash provided by (used in) financing activities	52,576	(77,863)
Net decrease in cash and cash equivalents	(13,636)	(1,898)
Cash and cash equivalents at beginning of period	76,004	55,012
Cash and cash equivalents at end of period	\$ 62,368	\$ 53,114
<b>SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:</b>		
Interest paid	\$ 17,093	\$ 15,413
Income taxes paid	500	500
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Acquisition of other repossessed assets and real estate through foreclosure	\$ 1,240	\$ 109
Declaration of 5% stock dividend	14,246	-
Adjustment to pension liability	(121)	(158)
Unsettled trades to purchase securities	(6,899)	-
Unsettled trades to sell securities	19,287	-

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 “Fort Worth National Bank” refer to those entities, respectively, and the words “the Banks” refers to those entities collectively. The word “SFG” refers to Southside Financial Group, LLC., of which Southside owns a 50% interest.

The consolidated balance sheet as of March 31, 2008, and the related consolidated statements of income, shareholders' equity and cash flows and notes to the financial statements for the three month periods ended March 31, 2008 and 2007 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 for the year ended December 31, 2007. 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, 2007.

2. 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 Ended March 31,	
	2008	2007
<b>Basic Earnings and Shares:</b>		
Net Income	\$ 5,546	\$ 3,763
Weighted-average basic shares outstanding	13,805	13,631
<b>Basic Earnings Per Share:</b>		
Net Income	\$ 0.40	\$ 0.28
<b>Diluted Earnings and Shares:</b>		
Net Income	\$ 5,546	\$ 3,763
Weighted-average basic shares outstanding	13,805	13,631
Add: Stock options	354	464
Weighted-average diluted shares outstanding	14,159	14,095
<b>Diluted Earnings Per Share:</b>		
Net Income	\$ 0.39	\$ 0.27

For the three month periods ended March 31, 2008 and 2007, there were no antidilutive options.

6

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## 3. Comprehensive Income

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

	Three Months Ended March 31, 2008		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	\$ 10,963	\$ (3,880)	\$ 7,083
Less: reclassification adjustment for gains included in net income	2,092	(732)	1,360
Net unrealized gains on securities	8,871	(3,148)	5,723
Change in pension plans	121	72	193
Other comprehensive income	\$ 8,992	\$ (3,076)	\$ 5,916

	Three Months Ended March 31, 2007		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	\$ 3,668	\$ (1,247)	\$ 2,421
Less: reclassification adjustment for gains included in net income	429	(146)	283
Net unrealized gains on securities	3,239	(1,101)	2,138
Change in pension plans	158	(54)	104
Other comprehensive income	\$ 3,397	\$ (1,155)	\$ 2,242

4.