

MIDSOUTH BANCORP INC
Form 10-Q
November 09, 2010

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 September 30, 2010

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
(State of other jurisdiction of incorporation or organization)

72-1020809
(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 November 8, 2010, there were 9,725,252 shares of the registrant's Common Stock, par value \$0.10 per share, outstanding.

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Part I – Financial Information

Item 1. Financial Statements.

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Statements of Condition

(dollars in thousands, except share data)

	September 30, 2010 (unaudited)	December 31, 2009* (audited)
Assets		
Cash and due from banks, including required reserves of \$4,006 and \$3,460, respectively	\$ 20,916	\$ 22,842
Interest-bearing deposits in banks	28,857	509
Federal funds sold	3,606	-
Time deposits held in banks	5,060	26,122
Securities available-for-sale, at fair value (cost of \$264,821 at September 30, 2010 and \$265,892 at December 31, 2009)	274,291	271,808
Securities held-to-maturity (fair value of \$1,617 at September 30, 2010 and \$3,121 at December 31, 2009)	1,588	3,043
Other investments	5,065	4,902
Loans	598,311	585,042
Allowance for loan losses	(8,446)	(7,995)
Loans, net	589,865	577,047
Bank premises and equipment, net	36,814	38,737
Accrued interest receivable	4,989	4,808
Goodwill and intangibles	9,406	9,483
Cash surrender value of life insurance	4,661	4,540
Other assets	7,711	8,301
Total assets	\$ 992,829	\$ 972,142
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 195,496	\$ 175,173
Interest bearing	584,110	598,112
Total deposits	779,606	773,285
Securities sold under agreements to repurchase	53,091	47,059
Federal funds purchased	-	1,700
Junior subordinated debentures	15,465	15,465
Other liabilities	6,970	5,356
Total liabilities	855,132	842,865
Stockholders' Equity:		
Preferred stock, no par value; 5,000,000 shares authorized, 20,000 shares issued and outstanding at September 30, 2010 and at December 31, 2009	19,359	19,211
	988	949

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Common stock, \$0.10 par value; 30,000,000 shares authorized, 9,875,729 issued and 9,725,252 outstanding at September 30, 2010 and 9,488,933 issued and 9,318,268 outstanding at December 31, 2009

Additional paid-in capital	89,823	85,263
Unearned ESOP shares	(133)	(217)
Accumulated other comprehensive income	6,249	3,904
Treasury stock – 150,477 shares at September 30, 2010 and 170,665 shares at December 31, 2009, at cost	(3,286)	(3,544)
Retained earnings	24,697	23,711
Total stockholders' equity	137,697	129,277
Total liabilities and stockholders' equity	\$ 992,829	\$ 972,142

See notes to unaudited consolidated financial statements.

* Derived from audited financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Earnings (unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest income:				
Loans, including fees	\$ 10,104	\$ 10,426	\$ 29,832	\$ 31,119
Securities and other investments:				
Taxable	925	898	2,816	3,046
Nontaxable	986	1,068	3,009	3,305
Federal funds sold	3	10	4	29
Time deposits in other banks	46	56	182	187
Other investments and interest bearing deposits	56	40	145	102
Total interest income	12,120	12,498	35,988	37,788
Interest expense:				
Deposits	1,325	2,014	4,316	6,228
Securities sold under agreements to repurchase	249	303	713	775
Federal funds purchased	-	-	2	5
Other borrowed money	-	-	3	23
Junior subordinated debentures	247	249	731	777
Total interest expense	1,821	2,566	5,765	7,808
Net interest income	10,299	9,932	30,223	29,980
Provision for loan losses	1,500	1,000	4,150	4,100
Net interest income after provision for loan losses	8,799	8,932	26,073	25,880
Non-interest income:				
Service charges on deposits	2,427	2,736	7,485	7,700
ATM and debit card income	859	770	2,489	2,310
Other charges and fees	450	466	1,427	1,350
Total non-interest income	3,736	3,972	11,401	11,360
Non-interest expenses:				
Salaries and employee benefits	5,118	5,505	15,306	16,257
Occupancy expense	2,177	2,287	6,709	6,916
FDIC insurance	334	328	986	1,380
Other	3,488	3,206	10,019	9,171
Total non-interest expenses	11,117	11,326	33,020	33,724
Income before income taxes	1,418	1,578	4,454	3,516
Provision for income taxes	179	147	530	107
Net earnings	1,239	1,431	3,924	3,409
Dividends on preferred stock and accretion of warrants	300	299	898	875
Net earnings available to common shareholders	\$ 939	\$ 1,132	\$ 3,026	\$ 2,534

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Earnings per share:				
Basic	\$0.09	\$0.17	\$0.31	\$0.38
Diluted	\$0.09	\$0.17	\$0.31	\$0.38

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
 Consolidated Statement of Stockholders' Equity (unaudited)
 For the Nine Months Ended September 30, 2010
 (in thousands, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount						
Balance- January 1, 2010	20,000	\$19,211	9,488,933	\$949	\$85,263	\$(217)	\$3,904	\$(3,544)	\$23,711	\$129,277
Net earnings	-	-	-	-	-	-	-	-	3,924	3,924
Net change in unrealized gains on securities available-for-sale, net of taxes	-	-	-	-	-	-	2,345	-	-	2,345
Comprehensive income	-	-	-	-	-	-	-	-	-	6,269
Issuance of common and treasury stock due to over-allotment, net of discount and offering expenses	-	-	384,811	39	4,472	-	-	258	-	4,769
Dividends on preferred stock and accretion of common stock warrants	-	148	-	-	-	-	-	-	(898)	(750)
Dividends on common stock, \$0.21 per share	-	-	-	-	-	-	-	-	(2,040)	(2,040)
Exercise of stock options	-	-	1,985	-	17	-	-	-	-	17
ESOP compensation expense	-	-	-	-	43	84	-	-	-	127
Stock option expense	-	-	-	-	5	-	-	-	-	5
Restricted stock compensation expense	-	-	-	-	23	-	-	-	-	23
Balance- September 30, 2010	20,000	\$19,359	9,875,729	\$988	\$89,823	\$(133)	\$6,249	\$(3,286)	\$24,697	\$137,697

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows (unaudited)
 (in thousands)

	For the Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net earnings	\$3,924	\$3,409
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,623	2,797
Provision for loan losses	4,150	4,100
Provision for deferred tax benefit	(838)	(459)
Amortization of premiums on securities, net	909	642
Stock option expense	5	19
Restricted stock expense	23	-
Net loss on sale of other real estate owned	146	23
Net loss on sale of premises and equipment	62	16
Change in accrued interest receivable	(181)	73
Change in accrued interest payable	(300)	(591)
Other, net	2,563	2,676
Net cash provided by operating activities	13,086	12,705
Cash flows from investing activities:		
Net decrease (increase) in time deposits in other banks	21,062	(7,000)
Proceeds from maturities and calls of securities available-for-sale	26,278	63,249
Proceeds from maturities and calls of securities held-to-maturity	1,456	3,277
Purchases of securities available-for-sale	(26,107)	(51,687)
Purchases of other investments	(173)	(124)
Net change in loans	(18,067)	15,869
Purchase of premises and equipment	(689)	(1,195)
Proceeds from sale of premises and equipment	3	9
Proceeds from sales of other real estate owned	766	122
Purchase of other real estate owned	(450)	-
Net cash provided by investing activities	4,079	22,520
Cash flows from financing activities:		
Change in deposits	6,320	5,387
Change in repurchase agreements	6,032	30,390
Change in federal funds purchased	(1,700)	(14,900)
Change in Federal Reserve Discount Window borrowings	-	(36,000)
Net proceeds from the issuance of preferred stock	-	19,954
Issuance of common stock and treasury stock, net of offering expenses	4,769	-
Payment of dividends on preferred stock	(750)	(600)
Payment of dividends on common stock	(1,825)	(1,654)
Proceeds from exercise of stock options	17	-
Excess tax benefit from stock option exercises, net adjustment	-	(3)
Net cash provided by financing activities	12,863	2,574

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Net increase in cash and cash equivalents	30,028	37,799
Cash and cash equivalents, beginning of period	23,351	24,786
Cash and cash equivalents, end of period	\$53,379	\$62,585
Supplemental information- Noncash items		
Accretion of warrants	148	148
Transfer of loans to other real estate owned	1,183	599
Net change in loan to ESOP	(84)	227

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2010
(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, the financial position of the Company and its subsidiaries as of September 30, 2010 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 2009 Annual Report on Form 10-K.

The results of operations for the nine month period ended September 30, 2010 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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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 2009 Annual Report on Form 10-K.

Recent Accounting Pronouncements — In July 2010 FASB issued Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), which is intended to improve transparency in financial reporting by public and nonpublic companies that hold financing receivables, which include loans, lease receivables, and other long-term receivables by requiring companies to provide more information in disclosures about the credit quality of financing receivables and the credit reserves held against receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. For public companies, the amendments that require disclosure as of the end of a reporting period are effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. As ASU 2010-20 amends only the disclosure requirements for loans and leases and the allowance for credit losses, the adoption will have no impact on our consolidated financial statements. To provide greater transparency on non-performing assets, additional disclosures that will be required by ASU 2010-20 have been included in Note 4 – Credit Quality of Loans and Allowance for Loan Losses for the period ended September 30, 2010.

ASU No. 2010-06, Improving Disclosures About Fair Value Measurements (“ASU 2010-06”). ASU 2010-06 amends FASB Accounting Standards Codification topic 820-10-50, Fair Value Measurements and Disclosures, to require additional information to be disclosed principally regarding Level 3 measurements and transfers to and from Level 1 and Level 2. In addition, enhanced disclosure is required concerning inputs and valuation techniques used to determine Level 2 and Level 3 measurements. This guidance is generally effective for interim and annual reporting periods beginning after December 15, 2009; however requirements to disclose separately purchases, sales, issuances and settlements in the Level 3 reconciliation are effective for fiscal years beginning after December 15, 2010 (and for interim periods within such years). As required by ASU 2010-06, additional disclosure concerning inputs and valuation techniques has been included in Note 8 – Fair Value Measurement for the quarter ended September 30, 2010.

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Reclassifications—Certain reclassifications have been made to the prior years' financial statements in order to conform to the classifications adopted for reporting in 2010. The reclassifications had no impact on stockholders' equity or net income.

2. Investment Securities

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

		September 30, 2010		
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Available-for-sale:				
U.S. Government agencies	\$116,729	\$1,545	\$-	\$118,274
Obligations of state and political subdivisions	108,815	6,202	-	115,017
GSE mortgage-backed securities	11,319	809	-	12,128
Collateralized mortgage obligations	27,886	923	15	28,794
Financial institution equity security	72	6	-	78
	\$264,821	\$9,485	\$15	\$274,291

		December 31, 2009		
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Available-for-sale:				
U.S. Government agencies	\$102,249	\$459	\$185	\$102,523
Obligations of state and political subdivisions	113,232	4,180	111	117,301
GSE mortgage-backed securities	14,888	746	-	15,634
Collateralized mortgage obligations	35,451	870	43	36,278
Financial institution equity security	72	-	-	72
	\$265,892	\$6,255	\$339	\$271,808

		September 30, 2010		
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Held-to-maturity:				
Obligations of state and political subdivisions	\$1,588	\$29	\$-	\$1,617

		December 31, 2009		
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized	Unrealized	
		Gains	Losses	
Held-to-maturity:				

Obligations of state and political subdivisions	\$3,043	\$78	\$-	\$3,121
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With the exception of two private-label collateralized mortgage obligations (“CMOs”) with a combined balance remaining of \$126,000 at September 30, 2010, all of the Company’s CMOs are government-sponsored enterprise securities.

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The amortized cost and fair value of debt securities at September 30, 2010 by contractual maturity are shown in the following table (in thousands). Except for mortgage-backed securities, expected maturities may differ from contractual maturities 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	\$31,374	\$31,700
Due after one year through five years	136,531	140,357
Due after five years through ten years	42,205	44,990
Due after ten years	15,434	16,244
Mortgage-backed securities and collateralized mortgage obligations	39,205	40,922
Equity securities with readily determinable market values	72	78
	\$264,821	\$274,291

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	\$900	\$907
Due after one year through five years	688	710
	\$1,588	\$1,617

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

	September 30, 2010	
	Securities with losses under 12 months	Securities with losses over 12 months