

MIDSOUTH BANCORP INC
Form 10-Q
May 10, 2016

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 March 31, 2016

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 72-102089
(State or other jurisdiction of incorporation or organization) (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 May 10, 2016, there were 11,362,150 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 Balance Sheets

(dollars in thousands, except share data)

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Cash and due from banks, including required reserves of \$7,155 and \$8,522, respectively	\$32,942	\$37,170
Interest-bearing deposits in banks	77,043	48,331
Federal funds sold	2,425	3,700
Securities available-for-sale, at fair value (cost of \$298,564 at March 31, 2016 and \$317,375 at December 31, 2015)	302,151	318,159
Securities held-to-maturity (fair value of \$115,631 at March 31, 2016 and \$117,698 at December 31, 2015)	113,623	116,792
Other investments	11,195	11,188
Loans	1,250,049	1,263,645
Allowance for loan losses	(20,347)	(19,011)
Loans, net	1,229,702	1,244,634
Bank premises and equipment, net	68,482	69,105
Accrued interest receivable	6,729	6,594
Goodwill	42,171	42,171
Intangibles	5,451	5,728
Cash surrender value of life insurance	13,690	13,622
Other real estate	3,908	4,187
Other assets	7,039	6,352
Total assets	\$1,916,551	\$1,927,733
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$383,684	\$374,261
Interest-bearing	1,174,519	1,176,589
Total deposits	1,558,203	1,550,850
Securities sold under agreements to repurchase	87,879	85,957
Short-term Federal Home Loan Bank advances	—	25,000
Long-term Federal Home Loan Bank advances	25,744	25,851
Junior subordinated debentures	22,167	22,167
Other liabilities	6,704	4,771
Total liabilities	1,700,697	1,714,596
Commitments and contingencies		
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at March 31, 2016 and December 31, 2015	32,000	32,000
Series C Preferred stock, no par value; 100,000 shares authorized, 91,200 shares issued and outstanding at March 31, 2016 and December 31, 2015	9,120	9,120
	1,136	1,136

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Common stock, \$0.10 par value; 30,000,000 shares authorized, 11,362,150 shares issued and outstanding at March 31, 2016 and December 31, 2015

Additional paid-in capital	110,958	110,771	
Unearned ESOP shares	(1,284) (1,093)
Accumulated other comprehensive income	2,331	509	
Retained earnings	61,593	60,694	
Total shareholders' equity	215,854	213,137	
Total liabilities and shareholders' equity	\$1,916,551	\$1,927,733	

See notes to unaudited consolidated 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 March 31,	
	2016	2015
Interest income:		
Loans, including fees	\$17,123	\$18,054
Securities and other investments:		
Taxable	2,036	1,925
Nontaxable	458	584
Federal funds sold	5	2
Time and interest bearing deposits in other banks	94	37
Other investments	88	79
Total interest income	19,804	20,681
Interest expense:		
Deposits	907	947
Securities sold under agreements to repurchase	233	230
Other borrowings and payables	113	97
Junior subordinated debentures	167	150
Total interest expense	1,420	1,424
Net interest income	18,384	19,257
Provision for loan losses	2,800	6,000
Net interest income after provision for loan losses	15,584	13,257
Non-interest income:		
Service charges on deposits	2,313	2,332
Gain on sale of securities, net	—	115
ATM and debit card income	1,609	1,629
Other charges and fees	565	765
Total non-interest income	4,487	4,841
Non-interest expenses:		
Salaries and employee benefits	7,990	7,942
Occupancy expense	3,597	3,685
ATM and debit card expense	785	663
Data processing	458	457
FDIC insurance	429	281
Legal and professional fees	383	345
Other	3,117	2,788
Total non-interest expenses	16,759	16,161
Income before income taxes	3,312	1,937
Income tax expense	963	446
Net earnings	2,349	1,491
Dividends on preferred stock	427	173
Net earnings available to common shareholders	\$1,922	\$1,318

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Earnings per share:

Basic	\$0.17	\$0.12
Diluted	\$0.17	\$0.12
Weighted average number of shares outstanding:		
Basic	11,262	11,318
Diluted	11,262	11,351
Dividends declared per common share	\$0.09	\$0.09

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)

	Three Months Ended March 31,	
	2016	2015
Net earnings	\$2,349	\$1,491
Other comprehensive income, net of tax:		
Unrealized gains on securities available-for-sale:		
Unrealized holding gains arising during the year	2,802	1,701
Less: reclassification adjustment for gains on sales of securities available-for-sale	—	(115)
Total other comprehensive income, before tax	2,802	1,586
Income tax effect related to items of other comprehensive income	(980)	(555)
Total other comprehensive income, net of tax	1,822	1,031
Total comprehensive income	\$4,171	\$2,522
See notes to unaudited consolidated financial statements.		

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MidSouth Bancorp, Inc. and Subsidiaries
 Consolidated Statement of Shareholders' Equity (unaudited)
 For the Three Months Ended March 31, 2016
 (in thousands, except share and per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount	Shares	Amount					
Balance - December 31, 2015	123,200	\$41,120	11,362,150	\$1,136	\$110,771	\$(1,093)	\$509	\$60,694	\$213,137
Net earnings	—	—	—	—	—	—	—	2,349	2,349
Dividends on Series B and Series C preferred stock	—	—	—	—	—	—	—	(427)	(427)
Dividends on common stock, \$0.09 per share	—	—	—	—	—	—	—	(1,023)	(1,023)
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(191)	—	—	(191)
Tax benefit resulting from distribution from Directors	—	—	—	—	39	—	—	—	39
Deferred Compensation Plan Stock option and restricted stock compensation expense	—	—	—	—	97	—	—	—	97
ESOP compensation expense	—	—	—	—	(36)	—	—	—	(36)
Tax benefit for dividends paid to the ESOP	—	—	—	—	87	—	—	—	87
Change in accumulated other comprehensive income	—	—	—	—	—	—	1,822	—	1,822
Balance – March 31, 2016	123,200	\$41,120	11,362,150	\$1,136	\$110,958	\$(1,284)	\$2,331	\$61,593	\$215,854

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 Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net earnings	\$2,349	\$1,491
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,512	1,555
Accretion of purchase accounting adjustments	(288)	(189)
Provision for loan losses	2,800	6,000
Deferred tax benefit	(503)	(1,951)
Amortization of premiums on securities, net	681	633
Stock option expense	84	85
Restricted stock expense	13	—
Excess of book value over market value of ESOP shares released	(36)	—
Net gain on sale of investment securities	—	(115)
Net loss (gain) on sale of other real estate owned	24	(50)
Net write down of other real estate owned	120	29
Net gain on sale/disposal of premises and equipment	(14)	(1)
Change in accrued interest receivable	(135)	(106)
Change in accrued interest payable	(9)	(4)
Change in other assets & other liabilities, net	454	1,684
Net cash provided by operating activities	7,052	9,061
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available-for-sale	18,379	17,988
Proceeds from maturities and calls of securities held-to-maturity	2,919	3,326
Proceeds from sale of securities available-for-sale	—	34,509
Purchases of securities available-for-sale	—	(73,853)
Proceeds from sale of other investments	—	349
Purchases of other investments	(7)	(3)
Net change in loans	12,293	(28,461)
Purchases of premises and equipment	(915)	(1,362)
Proceeds from sale of premises and equipment	40	4
Proceeds from sale of other real estate owned	245	532
Net cash provided by (used in) investing activities	32,954	(46,971)
Cash flows from financing activities:		
Change in deposits	7,366	30,901
Change in securities sold under agreements to repurchase	1,922	25,248
Borrowings on Federal Home Loan Bank advances	25,000	25,000
Repayments of Federal Home Loan Bank advances	(50,017)	(25,015)
Proceeds and tax benefit from exercise of stock options	—	80
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	39	420
Tax benefit for dividends paid to ESOP	87	—
Payment of dividends on preferred stock	(171)	(174)
Payment of dividends on common stock	(1,023)	(1,020)

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Net cash (used in) provided by financing activities	(16,797)	55,440
Net increase in cash and cash equivalents	23,209	17,530
Cash and cash equivalents, beginning of period	89,201	86,872
Cash and cash equivalents, end of period	\$112,410	\$104,402
Supplemental cash flow information:		
Interest paid	\$1,429	\$1,427
Noncash investing and financing activities:		
Transfer of loans to other real estate	110	866
Change in accrued common stock dividends	—	1
Change in accrued preferred stock dividends	256	—
Net change in loan to ESOP	(191)	(268)

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
March 31, 2016
(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 (“GAAP”), the financial position of MidSouth Bancorp, Inc. (the “Company”) and its subsidiaries as of March 31, 2016 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 2015 Annual Report on Form 10-K.

The results of operations for the three-month period ended March 31, 2016 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 GAAP 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 GAAP 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 2015 Annual Report on Form 10-K.

Recent Accounting Pronouncements — ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities is the first ASU issued under the FASB's financial instruments project. ASU 2016-01 primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The guidance in this ASU requires all equity securities with readily determinable fair values to be measured at fair value on the balance sheet, with changes in fair value recorded through earnings. For financial liabilities that are measured at fair value in accordance with the fair value option, the guidance requires changes in the fair value of a financial liabilities attributable to a change in instrument-specific credit risk to be recorded separately in other comprehensive income. This ASU eliminates the requirement to disclose the methods and significant assumptions used to estimate fair value. It does require public entities to use the exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes In addition, the new g