

SOUTHSIDE BANCSHARES INC
Form 10-Q/A
April 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(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, 2011

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 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 (§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 smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller 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

The number of shares of the issuer's common stock, par value \$1.25, outstanding as of April 22, 2011 was 16,441,417 shares.

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Explanatory Note

This Amendment No. 1 on Form 10-Q/A amends the Quarterly Report on Form 10-Q for the period ended March 31, 2011, which was originally filed with the Securities and Exchange Commission (the “SEC”) on May 6, 2011 (the “Original Filing”). This amendment is being filed to reflect the restatement of i) the quarterly results of Southside Bancshares, Inc. (the “Company”), as discussed in Note 2 to the unaudited consolidated financial statements contained herein, and ii) other information related to such restated financial information. Except for Items 1, 2 and 4 of Part I and Item 6 of Part II, no other information included in the Original Filing is amended by this Form 10-Q/A.

During the preparation of the Form 10-K for the year ended December 31, 2011 (the “2011 Form 10-K”), the Company determined that in periods prior to December 31, 2011, it incorrectly accounted for securities acquired with a significant purchase premium that included an embedded derivative. These securities were mainly acquired in 2010 and 2011. Pursuant to GAAP, the Company is required to bifurcate and account for the embedded derivative separately or to account for the securities including the embedded derivative at fair value through income, if the bifurcation was impractical. The Company determined that valuing the embedded derivative separately was not readily identifiable and measurable and as such, cannot be bifurcated. Therefore, the Company determined that all securities meeting the above criteria should be reflected at fair value with the change in fair value reflected through income.

In addition, the Company determined that during the first three quarters of 2011, it incorrectly priced securities acquired with a significant premium and did not account for the impairment of FHLB advance option fees that became impaired during the third quarter of 2011.

The Company evaluated the effect of these three errors and concluded that they were immaterial to any of the previously issued consolidated financial statements except for the unaudited consolidated financial statements included in the Company’s Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2011. Accordingly, on March 8, 2012, the Company filed a Form 8-K reporting that the Audit Committee of the Board of Directors of the Company determined based on the recommendation of management, that the Company should restate its unaudited consolidated financial statements in each of these Quarterly Reports on Form 10-Q. In addition, the Company revised its 2010 consolidated financial statements in the 2011 Form 10-K to correct for these errors.

See Note 2 – Restatement to Previously Issued Financial Statements contained in the Notes to Financial Statements included in this Form 10-Q/A which further describes the effect of this restatement.

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, this Form 10-Q/A includes new certifications by our principal executive officer and principal financial officer under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except for the items noted above, no other information included in the Original Filing is being amended by this Form 10-Q/A. This Form 10-Q/A continues to speak as of the date of the Original Filing and we have not updated the filing to reflect events occurring subsequent to the date of the Original Filing other than those associated with the restatement of the Company’s financial statements. Accordingly, this Form 10-Q/A should be read in conjunction with the Company’s filings with the SEC subsequent to the Original Filing, including any amendments to those filings.

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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)

ASSETS	March 31, 2011 (Restated)	December 31, 2010
Cash and due from banks	\$48,185	\$ 56,188
Interest earning deposits	1,435	22,885
Total cash and cash equivalents	49,620	79,073
Investment securities:		
Available for sale, at estimated fair value	320,720	299,344
Held to maturity, at amortized cost	1,495	1,495
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	874,693	886,574
Securities carried at fair value through income	233,260	72,176
Held to maturity, at amortized cost	396,579	405,367
FHLB stock, at cost	29,216	34,712
Other investments, at cost	2,064	2,064
Loans held for sale	2,665	6,583
Loans:		
Loans	1,063,644	1,077,920
Less: allowance for loan losses	(19,780)	(20,711)
Net Loans	1,043,864	1,057,209
Premises and equipment, net	50,340	50,144
Goodwill	22,034	22,034
Other intangible assets, net	708	777
Interest receivable	15,215	18,033
Deferred tax asset	4,560	6,603
Other assets	54,857	57,571
TOTAL ASSETS	\$3,101,890	\$ 2,999,759
LIABILITIES AND EQUITY		
Deposits:		
Noninterest bearing	\$459,906	\$ 423,304
Interest bearing	1,740,917	1,711,124
Total Deposits	2,200,823	2,134,428
Short-term obligations:		
Federal funds purchased and repurchase agreements	2,981	3,844
FHLB advances	214,456	189,094
Other obligations	2,144	2,651
Total Short-term obligations	219,581	195,589
Long-term obligations:		
FHLB advances	322,242	373,479
Long-term debt	60,311	60,311
Total Long-term obligations	382,553	433,790

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Other liabilities	73,376	20,378
TOTAL LIABILITIES	2,876,333	2,784,185
Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 11)		
Shareholders' equity:		
Common stock - \$1.25 par, 40,000,000 shares authorized, 18,465,255 shares issued in 2011 (including 790,405 shares declared on March 31, 2011 as a stock dividend) and 17,660,312 shares issued in 2010	23,081	22,075
Paid-in capital	178,274	162,877
Retained earnings	53,786	64,179
Treasury stock (2,023,838 shares at cost)	(28,377)	(28,377)
Accumulated other comprehensive loss	(3,070)	(6,293)
TOTAL SHAREHOLDERS' EQUITY	223,694	214,461
Noncontrolling interest	1,863	1,113
TOTAL EQUITY	225,557	215,574
TOTAL LIABILITIES AND EQUITY	\$3,101,890	\$ 2,999,759

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

Table of ContentsSOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share data)	Three Months Ended March	
	2011 (Restated)	31, 2010
Interest income		
Loans	\$ 17,271	\$ 17,765
Investment securities – taxable	18	26
Investment securities – tax-exempt	3,229	2,826
Mortgage-backed and related securities	11,297	14,277
FHLB stock and other investments	80	82
Other interest earning assets	10	11
Total interest income	31,905	34,987
Interest expense		
Deposits	4,036	5,005
Short-term obligations	1,729	1,680
Long-term obligations	3,881	5,226
Total interest expense	9,646	11,911
Net interest income	22,259	23,076
Provision for loan losses	2,138	3,867
Net interest income after provision for loan losses	20,121	19,209
Noninterest income		
Deposit services	3,879	4,064
Gain on sale of securities available for sale	1,551	8,355
Gain on sale of securities carried at fair value through income	254	–
Total other-than-temporary impairment losses	–	(39)
Portion of loss recognized in other comprehensive income (before taxes)	–	(36)
Net impairment losses recognized in earnings	–	(75)
Fair value gain (loss) – securities	1,627	–
Gain on sale of loans	283	281
Trust income	651	530
Bank owned life insurance income	286	285
Other	1,105	933
Total noninterest income	9,636	14,373
Noninterest expense		
Salaries and employee benefits	11,691	10,942
Occupancy expense	1,721	1,643
Equipment expense	493	437
Advertising, travel & entertainment	553	537
ATM and debit card expense	215	167
Director fees	191	177
Supplies	224	270
Professional fees	555	406
Postage	179	186
Telephone and communications	337	373

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FDIC Insurance	763	679
Other	1,810	1,635
Total noninterest expense	18,732	17,452
Income before income tax expense	11,025	16,130
Provision for income tax expense	1,786	3,955
Net income	9,239	12,175
Less: Net income attributable to the noncontrolling interest	(865)	(530)
Net income attributable to Southside Bancshares, Inc.	\$ 8,374	\$ 11,645
Earnings per common share – basic	\$ 0.51	\$ 0.70
Earnings per common share – diluted	\$ 0.51	\$ 0.70
Dividends paid per common share	\$ 0.17	\$ 0.17

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

Table of ContentsSOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)

(in thousands, except share amounts)

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accu- mulated- Other Compre- Hensive Income (Loss)	Noncon- trolling Interest	Total Equity
Balance at December 31, 2009	\$ 20,928	\$ 146,357	\$ 53,812	\$ (23,545)	\$ 4,229	\$ 468	\$ 202,249
Comprehensive income:							
Net Income			11,645			530	12,175
Net unrealized gains on available for sale securities, net of tax					560		560
Reclassification adjustment for gains on sales of available for sale securities included in net income, net of tax					(5,431)		(5,431)
Noncredit portion of other-than-temporary impairment losses on available for sale securities, net of tax					23		23
Reclassification of other-than-temporary impairment charges on available for sale securities included in net income, net of tax					49		