

SOUTHEASTERN BANKING CORP
Form 10-Q
August 15, 2005
Table of Contents

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 June 30, 2005

Commission File Number 2-83157

SOUTHEASTERN BANKING CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

58-1423423
(IRS Employer
Identification No.)

P. O. Box 455, 1010 Northway, Darien, Georgia 31305

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(Address of principal executive offices) (Zip Code)

(912) 437-4141

(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 29, 2005, 3,304,149 shares of the registrant's common stock, par value \$1.25 per share, were outstanding.

Table of Contents

Table of Contents

	<u>Page</u>
Part I Financial Information	
Item 1. <u>Financial Statements:</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Shareholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	8
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	22
Part II Other Information	
Item 1. <u>Legal Proceedings</u>	23
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 3. <u>Defaults upon Senior Securities</u>	23
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	23
Item 5. <u>Other Information</u>	23
Item 6. <u>Exhibits</u>	23
<u>Signatures</u>	24

Table of Contents**Item I - Financial Statements****Southeastern Banking Corporation****Consolidated Balance Sheets**

	(Unaudited) June 30, 2005	December 31, 2004
	<u>2005</u>	<u>2004</u>
Assets		
Cash and due from banks	\$ 20,389,884	\$ 17,923,519
Federal funds sold	15,306,000	31,118,000
	<u>35,695,884</u>	<u>49,041,519</u>
Cash and cash equivalents		
Investment securities		
Held-to-maturity (market value of approximately \$38,410,000 and \$38,769,000 at June 30, 2005 and December 31, 2004)	37,040,260	36,988,268
Available-for-sale, at market value	89,366,261	80,895,767
	<u>126,406,521</u>	<u>117,884,035</u>
Total investment securities		
Loans, gross	219,357,000	218,708,809
Unearned income	(194,838)	(204,306)
Allowance for loan losses	(4,210,556)	(4,134,048)
	<u>214,951,606</u>	<u>214,370,455</u>
Loans, net		
Premises and equipment, net	9,104,241	9,254,380
Intangible assets	593,811	622,918
Other assets	5,487,922	9,581,911
	<u>392,239,985</u>	<u>400,755,218</u>
Total Assets		
Liabilities and Shareholders Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	\$ 75,501,669	\$ 70,186,636
Interest-bearing deposits	257,701,367	269,123,254
	<u>333,203,036</u>	<u>339,309,890</u>
Total deposits		
U. S. Treasury demand note	787,109	1,431,211
Federal Home Loan Bank advances	5,000,000	5,000,000
Other liabilities	1,988,141	5,772,356
	<u>340,978,286</u>	<u>351,513,457</u>
Total liabilities		

Shareholders Equity		
Common stock (\$1.25 par value; 10,000,000 shares authorized; 3,580,797 shares issued; 3,304,149 shares outstanding)	4,475,996	4,475,996
Additional paid-in-capital	1,391,723	1,391,723
Retained earnings	49,911,037	47,828,636
Treasury stock, at cost (276,648 shares)	(4,815,629)	(4,815,629)
Realized shareholders equity	50,963,127	48,880,726
Accumulated other comprehensive income - unrealized gains on available-for-sale securities, net of tax	298,572	361,035
Total shareholders equity	51,261,699	49,241,761
Total Liabilities and Shareholders Equity	\$ 392,239,985	\$ 400,755,218

See accompanying notes to consolidated financial statements.

Table of Contents**Southeastern Banking Corporation****Consolidated Statements of Income****(Unaudited)**

<i>Period Ended June 30,</i>	<i>Quarter</i>		<i>Six Months</i>	
	2005	2004	2005	2004
Interest income				
Loans, including fees	\$ 4,244,511	\$ 3,710,611	\$ 8,191,914	\$ 7,293,208
Federal funds sold	138,411	28,239	283,476	50,337
Investment securities				
Taxable	953,186	1,023,676	1,861,631	2,073,934
Tax-exempt	376,609	384,316	749,480	762,610
Other assets	15,181	9,182	26,194	18,291
Total interest income	5,727,898	5,156,024	11,112,695	10,198,380
Interest expense				
Deposits	962,078	780,717	1,864,828	1,583,785
Federal funds purchased				39
U. S. Treasury demand note	3,527	1,269	6,915	2,224
Federal Home Loan Bank advances	74,822	74,822	148,822	149,644
Total interest expense	1,040,427	856,808	2,020,565	1,735,692
Net interest income	4,687,471	4,299,216	9,092,130	8,462,688
Provision for loan losses	132,500	220,400	225,833	423,983
Net interest income after provision for loan losses	4,554,971	4,078,816	8,866,297	8,038,705
Noninterest income				
Service charges on deposit accounts	575,806	655,590	1,119,993	1,266,453
Investment securities losses, net		(3)		(3,309)
Other operating income	296,322	305,176	600,726	620,174
Total noninterest income	872,128	960,763	1,720,719	1,883,318
Noninterest expense				
Salaries and employee benefits	1,953,822	1,762,947	3,864,173	3,461,304
Occupancy and equipment, net	642,855	622,692	1,285,256	1,219,894
Other operating expense	573,216	573,576	1,198,140	1,242,273
Total noninterest expense	3,169,893	2,959,215	6,347,569	5,923,471

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Income before income tax expense	2,257,206	2,080,364	4,239,447	3,998,552
Income tax expense	694,645	631,223	1,297,967	1,209,930
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 1,562,561	\$ 1,449,141	\$ 2,941,480	\$ 2,788,622
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic earnings per common share	\$ 0.47	\$ 0.44	\$ 0.89	\$ 0.84
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average common shares outstanding	3,304,149	3,310,891	3,304,149	3,311,715

See accompanying notes to consolidated financial statements.

Table of Contents**Southeastern Banking Corporation****Consolidated Statements of Shareholder's Equity****(Unaudited)**

	<i>Common Stock</i>	<i>Additional Paid-In Capital</i>	<i>Retained Earnings</i>	<i>Treasury Stock</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Total</i>
Balance, December 31, 2003	\$ 4,475,996	\$ 1,391,723	\$ 45,330,975	\$ (4,600,167)	\$ 1,166,730	\$ 47,765,257
Comprehensive income:						
Net income			2,788,622			2,788,622
Other comprehensive income, net of tax effect of \$663,629:						
Change in unrealized gains (losses) on available-for-sale securities					(1,288,221)	(1,288,221)
Total comprehensive income						1,500,401
Cash dividends declared (\$0.25 per share)			(827,690)			(827,690)
Purchase of treasury stock				(90,142)		(90,142)
Balance, June 30, 2004	\$ 4,475,996	\$ 1,391,723	\$ 47,291,907	\$ (4,690,309)	\$ (121,491)	\$ 48,347,826
Balance, December 31, 2004	\$ 4,475,996	\$ 1,391,723	\$ 47,828,636	\$ (4,815,629)	\$ 361,035	\$ 49,241,761
Comprehensive income:						
Net income			2,941,480			2,941,480
Other comprehensive income, net of tax effect of \$32,178:						
Change in unrealized gains (losses) on available-for-sale securities					(62,463)	(62,463)
Total comprehensive income						2,879,017
Cash dividends declared (\$0.26 per share)			(859,079)			(859,079)
Balance, June 30, 2005	\$ 4,475,996	\$ 1,391,723	\$ 49,911,037	\$ (4,815,629)	\$ 298,572	\$ 51,261,699

See accompanying notes to consolidated financial statements.

Table of Contents**Southeastern Banking Corporation****Consolidated Statements of Cash Flows****(Unaudited)**

<u>Six Months Ended June 30,</u>	<u>2005</u>	<u>2004</u>
Operating activities		
Net income	\$ 2,941,480	\$ 2,788,622
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	225,833	423,983
Depreciation	437,947	396,082
Amortization and accretion, net	197,411	392,392
Investment securities losses, net		3,309
Net gains on other real estate	(44,424)	(101,521)
Changes in assets and liabilities:		
(Increase) decrease in other assets	(370,566)	90,026
Decrease in other liabilities	(166,981)	(320,903)
Net cash provided by operating activities	<u>3,220,700</u>	<u>3,671,990</u>
Investing activities		
Principal collections and maturities of investment securities:		
Held-to-maturity	742,000	1,550,500
Available-for-sale	38,188,161	24,098,174
Proceeds from sales of investment securities available-for-sale	4,373,125	2,657,209
Purchases of investment securities held-to-maturity	(856,602)	(1,826,441)
Purchases of investment securities available-for-sale	(48,830,169)	(31,764,004)
Net increase in loans	(853,267)	(5,886,107)
Proceeds from sales of other real estate	203,814	53,530
Capital expenditures, net	(287,808)	(301,694)
Net cash used in investing activities	<u>(7,320,746)</u>	<u>(11,418,833)</u>
Financing activities		
Net (decrease) increase in deposits	(6,106,854)	11,217,745
Net (decrease) increase in U. S. Treasury demand note	(644,102)	592,964
Purchase of treasury stock		(90,142)
Dividends paid	(2,494,633)	(2,534,093)
Net cash (used in) provided by financing activities	<u>(9,245,589)</u>	<u>9,186,474</u>
Net (decrease) increase in cash and cash equivalents	<u>(13,345,635)</u>	<u>1,439,631</u>
Cash and cash equivalents at beginning of period	<u>49,041,519</u>	<u>26,405,941</u>
Cash and cash equivalents at end of period	<u>\$ 35,695,884</u>	<u>\$ 27,845,572</u>

Supplemental disclosure**Cash paid during the period**

Interest	\$ 2,028,269	\$ 1,863,859
Income taxes	1,360,000	1,290,000

Noncash investing and financing activities

Broker receivable for security sales	\$ (4,373,125)	\$
Broker payable for security purchases	(1,981,680)	
Real estate acquired through foreclosure	265,424	336,041
Loans made in connection with sales of foreclosed real estate	204,517	267,134

See accompanying notes to consolidated financial statements.

Table of Contents

Southeastern Banking Corporation

Notes to Consolidated Financial Statements

(Unaudited)

1. Accounting and Reporting Policy for Interim Periods

The accompanying unaudited consolidated financial statements of Southeastern Banking Corporation (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. These statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation. In the opinion of management, all adjustments necessary for a fair presentation have been made. These adjustments, consisting of normal, recurring accruals, include estimates for various fringe benefits and other transactions normally determined or settled at year-end. Operating results for the quarter and six months ended June 30, 2005 are not necessarily indicative of trends or results to be expected for the full year 2005. For further information, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. There have been no significant changes to the Company's Accounting Policies as disclosed in the 2004 Form 10-K.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Analysis should be read in conjunction with the 2004 Annual Report on Form 10-K and the consolidated financial statements & related notes on pages 3 - 7 of this quarterly filing. The Company's accounting policies, which are described in detail in Form 10-K, are integral to understanding the results reported. The Company's accounting policies require management's judgment in valuing assets, liabilities, commitments, and contingencies. A variety of factors could affect the ultimate value that is obtained when earning income, recognizing an expense, recovering an asset, or relieving a liability. This Analysis contains forward-looking statements with respect to business and financial matters. Actual results may vary significantly from those contained in these forward-looking statements. See the section entitled Forward-Looking Statements within this Analysis.

Description of Business

Southeastern Banking Corporation (the Company), with assets exceeding \$392,239,000, is a financial services company with operations in southeast Georgia and northeast Florida. Southeastern Bank (SEB), the Company's principal subsidiary, offers a full line of commercial and retail services to meet the financial needs of its customer base through its sixteen branch locations and ATM network. Services offered include traditional deposit and credit services, long-term mortgage originations, and credit cards. SEB also offers 24-hour delivery channels, including internet and telephone banking, and through an affiliation with Raymond James Financial Services, provides insurance agent and investment brokerage services.

Financial Condition

Consolidated assets totaled \$392,239,985 at June 30, 2005, down \$8,515,233 or 2.12% from year-end 2004 but up \$7,506,280 or 1.95% from June 30, 2004. Asset growth year-to-date was concentrated in the securities portfolio. Specifically, investment securities grew \$8,522,486 and loans, \$581,151; federal funds sold declined 50.81% or \$15,812,000. Securities comprised approximately 36%, loans, 60%, and federal funds sold, 4%, of earning assets at June 30, 2005 versus 32%, 59%, and 9% at December 31, 2004. Overall, earning assets approximated 92% of total assets at June 30, 2005. During the year-earlier period, total assets grew \$10,365,971 or 2.77%. Growth in the loan and securities portfolios was the primary factor in the 2004 results. Refer to the Liquidity section of this Analysis for details on deposits and other funding sources.

Investment Securities

On a carrying value basis, investment securities grew \$8,522,486 or 7.23% since December 31, 2004. Purchases of securities during the six-month period, including short-term securities with original maturities of 90 days or less, approximated \$47,705,000, and redemptions, \$38,930,000. The effective repricing of redeemed securities impacts current and future earnings results; refer to the Interest Rate and Market Risk/Interest Rate Sensitivity and Operations sections of this Analysis for more details. In conjunction with asset/liability management, the Company continues to increase its proportionate holdings of mortgage-backed securities, corporates, and municipals when feasible to reduce its exposure to Agency securities with call features. At June 30, 2005, mortgage-backed securities, corporates, and municipals comprised 25%, 9%, and 29% of the portfolio. Overall, securities comprised 36% of earning assets at June 30, 2005, up 400 basis points from year-end 2004 levels. The portfolio yield approximated 4.80% in 2005 year-to-date.

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Management believes the credit quality of the investment portfolio remains sound, with 61.78% of the carrying value of debt securities being backed by the U.S. Treasury or other U.S. Government-sponsored agencies at June 30, 2005. All of the Company's corporate bonds were rated A or higher by at least

Table of Contents

one nationally recognized rating agency at June 30, 2005. The weighted average life of the portfolio remained less than 4.0 years at June 30, 2005. The amortized cost and estimated fair value of investment securities are delineated in the table below:

*Investment Securities by Category**June 30, 2005*

<i>(In thousands)</i>	<i>Amortized Cost</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	<i>Fair Value</i>
Available-for-sale:				
U. S. Government agencies	\$ 47,040	\$ 57	\$ 178	\$ 46,919
Mortgage-backed securities	31,414	151	389	31,176
Corporates	10,460	813	2	11,271
	88,914	1,021	569	89,366
Held-to-maturity:				
States and political subdivisions	37,040	1,457	87	38,410
Total investment securities	\$ 125,954	\$ 2,478	\$ 656	\$ 127,776

As shown, the carrying value of the investment portfolio reflected \$1,822,363 in net unrealized gains at June 30, 2005; refer to the Capital Adequacy section of this Analysis for more details on investment securities and related fair value. The Company does not have a concentration in the obligations of any issuer other than the U.S. Government and its agencies.

Loans

Loans, net of unearned income, increased a modest \$657,659 since year-end 2004. The net loans to deposits ratio aggregated 65.77% at June 30, 2005 versus 64.40% at December 31, 2004, and 64.37% a year ago. Offsetting declines of \$4,946,365 within other sectors of the portfolio, the real estate construction portfolio grew \$5,594,556 or 9.91% during the first half of 2005. The majority of the growth within the construction portfolio was residential in nature and concentrated in the Company's coastal markets. Most of the loans in the real estate-construction portfolio are preparatory to customers' attainment of permanent financing or developer's sale and are, by nature, short-term and somewhat cyclical; swings in these account balances are normal and to be expected. Although the Company, like peer institutions of similar size, originates permanent mortgages for new construction, it traditionally does not hold or service long-term mortgage loans for its own portfolio. Rather, permanent mortgages are typically brokered through a mortgage underwriter or government agency. The Company receives mortgage origination fees for its participation in these origination transactions; refer to the disclosures provided under Results of Operations for more details. Overall, the commercial portfolio fell \$2,342,344 at June 30, 2005 compared to December 31, 2004. The decline in loans outstanding resulted primarily from pay-downs on large commercial loans in the normal course of business. Within the commercial portfolio, agricultural and governmental loans fell \$6,841,905 and \$173,673 during the six-month period; nonfarm real estate and other commercial/industrial loans grew \$615,746 and \$4,057,488. Balances in the consumer portfolio also declined \$2,323,918 or 13.27% at June 30, 2005 compared to year-end 2004; real estate mortgage loans fell \$280,104 or 0.49%. Reduced demand was the chief element in the 2005 results.

Despite economic uncertainties within the Company's markets, management is optimistic that loan volumes will trend higher in 2005 than 2004. Managerial strategies to increase loan production include continuing competitive pricing on loan products, development of additional loan relationships, and purchase of loan participations from correspondent banks, all without compromising portfolio quality. During the same period last year, net loans grew 2.71% or \$5,569,948. An \$8,713,055 or 19.91% increase in real estate construction loans was the chief factor in the

2004 results. Loans outstanding are presented by type in the table on the next page.

Table of Contents*Loans by Category*

<i>(In thousands)</i>	June 30, 2005	December 31, 2004	June 30, 2004
Commercial, financial, and agricultural ¹	\$ 85,441	\$ 87,784	\$ 83,958
Real estate construction	62,065	56,471	52,484
Real estate residential mortgage ²	56,663	56,944	55,637
Consumer, including credit cards	15,188	17,510	19,402
Loans, gross	219,357	218,709	211,481
Unearned income	195	204	231
Loans, net	\$ 219,162	\$ 218,505	\$ 211,250

¹ Includes obligations of states and political subdivisions.

² Typically have final maturities of 15 years or less.

The Company had no concentration of loans to borrowers engaged in any single industry that exceeded 10% of total loans for any of the periods presented. Although the Company's loan portfolio is diversified, significant portions of its loans are collateralized by real estate. At June 30, 2005, real estate loans exceeded \$166,000,000, and commitments to extend credit on such loans approximated \$19,000,000. As required by policy, real estate loans are collateralized based on certain loan-to-appraised value ratios. A geographic concentration in loans arises given the Company's operations within a regional area of southeast Georgia and northeast Florida. On an aggregate basis, commitments to extend credit and standby letters of credit approximated \$35,957,000 at June 30, 2005; because a substantial amount of these contracts expire without being drawn upon, total contractual amounts do not represent future credit exposure or liquidity requirements. The Company has not funded or incurred any losses on letters of credit in 2005 year-to-date.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, restructured loans, and foreclosed real estate and other assets. Overall, nonperforming assets approximated \$1,370,000 at June 30, 2005, down \$135,000 or 8.97% from year-end 2004 and 13.78% from June 30, 2004. As a percent of total assets, nonperforming assets totaled 0.35% at June 30, 2005 versus 0.38% at year-end 2004 and 0.41% a year ago. No material credits have been transferred or removed from nonaccrual status during 2005 year-to-date. Industry or individual concentrations within nonaccrual balances at June 30, 2005 included:

- a) Industry concentrations: Approximately 30% or \$315,000 of nonaccrual balances at June 30, 2005 pertained to the shrimping industry; charge-offs on these particular loans approximated \$64,000 during 2005 year-to-date. Collateral held varies but includes real estate and commercial fishing vessels. Management considers the allowance sufficient to absorb any additional losses that may result from these loans.
- b) Individual concentrations: At June 30, 2005, nonaccrual balances also included loans to one other borrower totaling \$76,000. Due to the underlying collateral coverage, no significant losses, if any, are expected on this balance.

Refer to the subsection entitled Policy Note for criteria used by management in classifying loans as nonaccrual. The allowance for loan losses approximated 3.98X the nonperforming loans balance at June 30, 2005 versus 3.87X at year-end 2004 and 3.17X a year ago. Significant activity within foreclosed real estate balances included foreclosure of one borrower's residential real estate valued at \$94,000 and sale of an unrelated

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\$150,000 parcel. Management is unaware of any other material developments in nonperforming assets at June 30, 2005 that should be presented or otherwise discussed.

Table of Contents

Loans past due 90 days or more approximated \$743,000, or less than 1% of net loans, at June 30, 2005. Management is unaware of any material concentrations within these past due balances. The table below provides further information about nonperforming assets and loans past due 90 plus days:

Nonperforming Assets

<i>(In thousands)</i>	June 30, 2005	December 31, 2004	June 30, 2004
Nonaccrual loans:			
Commercial, financial, and agricultural	\$ 255	\$ 312	\$ 570
Real estate construction	29	33	53
Real estate mortgage	639	556	516
Consumer, including credit cards	135	168	127
Total nonaccrual loans	\$ 1,058	\$ 1,069	\$ 1,266
Restructured loans ¹			
Total nonperforming loans	\$ 1,058	\$ 1,069	\$ 1,266
Foreclosed real estate ²	295	409	318
Other repossessed assets	17	27	5
Total nonperforming assets	\$ 1,370	\$ 1,505	