

PROSPERITY BANCSHARES INC
Form 10-Q
August 09, 2006
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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 JUNE 30, 2006

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: 000-25051

PROSPERITY BANCSHARES, INC.®

(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction of
incorporation or organization)

Prosperity Bank Plaza
4295 San Felipe

74-2331986
(I.R.S. Employer
Identification No.)

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Houston, Texas 77027

(Address of principal executive offices, including zip code)

(713) 693-9300

(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. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: Accelerated filer: Non-accelerated filer:
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 August 1, 2006, there were 32,768,281 shares of the registrant's Common Stock, par value \$1.00 per share, outstanding.

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PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS****PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	June 30,	December 31,
	2006	2005
	(Dollars in thousands, except share data)	
ASSETS		
Cash and due from banks	\$ 102,921	\$ 91,518
Federal funds sold	20,322	5,846
Total cash and cash equivalents	123,243	97,364
Interest bearing deposits in financial institutions	297	297
Available for sale securities, at fair value (amortized cost of \$397,141 and \$416,425, respectively)	389,293	410,361
Held to maturity securities, at cost (fair value of \$1,204,581, and \$1,135,694, respectively)	1,254,119	1,162,241
Loans held for investment	2,204,792	1,542,125
Less allowance for credit losses	(24,280)	(17,203)
Loans, net	2,180,512	1,524,922
Accrued interest receivable	19,877	16,105
Goodwill	423,534	261,964
Core deposit intangibles, net of accumulated amortization of \$9,129 and \$6,704, respectively	25,476	22,461
Bank premises and equipment, net	64,242	49,244
Other real estate owned	77	239
Bank Owned Life Insurance (BOLI), net	13,926	13,676
Leased assets	4,087	4,464
Other assets	33,268	22,644
TOTAL ASSETS	\$ 4,531,951	\$ 3,585,982

LIABILITIES AND SHAREHOLDERS EQUITY**LIABILITIES:**

Deposits:

Noninterest-bearing	\$ 839,317	\$ 674,407
Interest-bearing	2,800,683	2,245,911
Total deposits	3,640,000	2,920,318
Other borrowings	77,711	55,404
Securities sold under repurchase agreements	47,494	46,985
Accrued interest payable	8,175	6,546
Other liabilities	22,679	16,237
Junior subordinated debentures	100,519	75,775
Total liabilities	3,896,578	3,121,265

SHAREHOLDERS EQUITY:

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Preferred stock, \$1 par value; 20,000,000 shares authorized; none issued or outstanding		
Common stock, \$1 par value; 200,000,000 shares authorized; 32,801,241 and 27,857,887 shares issued at June 30, 2006 and December 31, 2005, respectively; 32,764,153 and 27,820,799 shares outstanding at June 30, 2006 and December 31, 2005, respectively	32,801	27,858
Capital surplus	424,699	280,525
Retained earnings	183,581	160,883
Accumulated other comprehensive loss net unrealized loss on available for sale securities, net of tax benefit of \$2,747 and \$2,122, respectively	(5,101)	(3,942)
Less treasury stock, at cost, 37,088 shares	(607)	(607)
Total shareholders equity	635,373	464,717
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 4,531,951	\$ 3,585,982

See notes to interim consolidated financial statements.

Table of Contents**PROSPERITY BANCSHARES, INC.® AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
(Dollars in thousands, except per share data)				
INTEREST INCOME:				
Loans, including fees	\$ 41,578	\$ 25,716	\$ 70,060	\$ 45,386
Securities:				
Taxable	18,510	14,749	35,065	28,196
Nontaxable	524	319	824	665
70% nontaxable preferred dividends	266	128	407	256
Federal funds sold	131	192	334	633
Deposits in financial institutions	3	2	6	3
Total interest income	61,012	41,106	106,696	75,139
INTEREST EXPENSE:				
Deposits	20,875	10,691	34,968	18,962
Junior subordinated debentures	1,994	1,273	3,391	2,162
Securities sold under repurchase agreements	434	146	795	244
Note payable and federal funds sold	1,127	517	1,770	815
Total interest expense	24,430	12,627	40,924	22,183
NET INTEREST INCOME	36,582	28,479	65,772	52,956
PROVISION FOR CREDIT LOSSES	120	120	240	240
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	36,462	28,359	65,532	52,716
NONINTEREST INCOME:				
Customer service fees	7,206	6,478	13,531	11,886
Other	1,950	1,403	3,292	2,528
Total noninterest income	9,156	7,881	16,823	14,414
NONINTEREST EXPENSE:				
Salaries and employee benefits	11,732	9,520	20,927	18,051
Net occupancy expense	1,967	1,691	3,648	3,062
Depreciation expense	1,327	1,158	2,502	2,129
Data processing	989	701	1,800	1,297
Core deposit intangible amortization	1,358	1,098	2,425	1,821
Other	4,026	3,644	7,346	7,286
Total noninterest expense	21,399	17,812	38,648	33,646
INCOME BEFORE INCOME TAXES	24,219	18,428	43,707	33,484
PROVISION FOR INCOME TAXES	8,324	6,220	14,948	10,722

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NET INCOME	\$ 15,895	\$ 12,208	\$ 28,759	\$ 22,762
EARNINGS PER SHARE				
Basic	\$ 0.49	\$ 0.44	\$ 0.95	\$ 0.88
Diluted	\$ 0.48	\$ 0.44	\$ 0.94	\$ 0.87

See notes to interim consolidated financial statements.

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	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income	Treasury	Total
	Shares	Amount	Surplus	Earnings	(Loss)	Stock	Shareholders Equity
BALANCE AT JANUARY 1, 2005	22,418,128	\$ 22,418	\$ 134,288	\$ 122,647	\$ (3,099)	\$ (607)	\$ 275,647
Comprehensive Income:							
Net income				47,860			47,860
Net change in unrealized loss on available for sale securities					(894)		(894)
Add: Reclassification adjustment for net losses included in net income, net of tax benefit of \$ 28					51		51
Total comprehensive income							47,017
Issuance of common stock in connection with the exercise of stock options	123,098	123	962				1,085
Common stock issued in connection with restricted stock awards	4,917	5	127				132
Common stock issued in connection with the First Capital acquisition	5,078,856	5,079	137,439				142,518
Common stock issued in connection with the Grapeland acquisition	232,888	233	6,894				7,127
Stock based compensation expense			619				619
Cash dividends declared, \$ 0.35 per share				(9,624)			(9,624)
Other			196				