

RENASANT CORP
Form 10-Q
August 09, 2010
[Table of Contents](#)

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, 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 001-13253

RENASANT CORPORATION

(Exact name of registrant as specified in its charter)

Edgar Filing: RENASANT CORP - Form 10-Q

Mississippi
(State or other jurisdiction of
incorporation or organization)

64-0676974
(I.R.S. Employer
Identification No.)

209 Troy Street, Tupelo, Mississippi
(Address of principal executive offices)

38804-4827
(Zip Code)

(662) 680-1001

(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.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) 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 ☒

As of July 31, 2010, 25,041,357 shares of the registrant's common stock, \$5.00 par value per share, were outstanding. The registrant has no other classes of securities outstanding.

Table of Contents

RENASANT CORPORATION

Form 10-Q

For the quarterly period ended June 30, 2010

CONTENTS

PART I - FINANCIAL INFORMATION

Item 1.	Financial Statements (Unaudited)	
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Income</u>	4
	<u>Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
Item 4.	<u>Controls and Procedures</u>	38

PART II - OTHER INFORMATION

Item 1A.	<u>Risk Factors</u>	39
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 6.	<u>Exhibits</u>	44
	<u>SIGNATURES</u>	45
	<u>EXHIBIT INDEX</u>	46

Table of Contents**Renasant Corporation and Subsidiaries****Condensed Consolidated Balance Sheets****(In Thousands, Except Share Data)**

	(unaudited) June 30, 2010	December 31, 2009
Assets		
Cash and due from banks	\$ 40,854	\$ 63,049
Interest-bearing balances with banks	150,287	85,511
Cash and cash equivalents	191,141	148,560
Securities held to maturity (fair value of \$162,088 and \$139,433 at June 30, 2010 and December 31, 2009, respectively)	160,480	138,806
Securities available for sale	561,160	575,358
Mortgage loans held for sale	21,261	25,749
Loans, net of unearned income	2,263,263	2,347,615
Allowance for loan losses	(41,146)	(39,145)
Net loans	2,222,117	2,308,470
Premises and equipment, net	43,127	43,672
Intangible assets, net	190,411	191,357
Other assets	204,175	209,109
Total assets	\$ 3,593,872	\$ 3,641,081
Liabilities and shareholders equity		
Liabilities		
Deposits		
Noninterest-bearing	\$ 313,309	\$ 304,962
Interest-bearing	2,374,903	2,271,138
Total deposits	2,688,212	2,576,100
Short-term borrowings	17,282	22,397
Long-term debt	442,480	595,627
Other liabilities	33,663	36,835
Total liabilities	3,181,637	3,230,959
Shareholders equity		
Preferred stock, \$.01 par value 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$.50 par value 75,000,000 shares authorized, 22,790,797 shares issued; 21,100,130 and 21,082,991 shares outstanding at June 30, 2010 and December 31, 2009, respectively	113,954	113,954
Treasury stock, at cost	(27,493)	(27,788)
Additional paid-in capital	184,970	184,831
Retained earnings	146,798	146,581
Accumulated other comprehensive loss	(5,994)	(7,456)

Edgar Filing: RENASANT CORP - Form 10-Q

Total shareholders' equity	412,235	410,122
Total liabilities and shareholders' equity	\$ 3,593,872	\$ 3,641,081

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

Renasant Corporation and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)
(In Thousands, Except Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest income				
Loans	\$ 31,678	\$ 34,729	\$ 64,107	\$ 70,495
Securities				
Taxable	5,238	6,729	11,137	13,677
Tax-exempt	1,413	1,182	2,748	2,317
Other	52	69	97	130
Total interest income	38,381	42,709	78,089	86,619
Interest expense				
Deposits	10,446	12,307	20,779	24,499
Borrowings	4,255	6,242	9,220	12,647
Total interest expense	14,701	18,549	29,999	37,146
Net interest income	23,680	24,160	48,090	49,473
Provision for loan losses	7,000	6,700	13,665	11,740
Net interest income after provision for loan losses	16,680	17,460	34,425	37,733
Noninterest income				
Service charges on deposit accounts	5,361	5,395	10,451	10,820
Fees and commissions	3,409	4,424	7,130	9,106
Insurance commissions	830	837	1,664	1,665
Trust revenue	632	488	1,216	979
Gains on sales of securities available for sale	2,049	1,123	2,049	1,550
Other-than-temporary-impairment losses on securities available for sale	(61)		(1,342)	
Non-credit related portion of other-than-temporary impairment on securities, recognized in other comprehensive income	61		1,182	
Net impairment losses on securities			(160)	
BOLI income	738	539	1,312	1,173
Gains on sales of mortgage loans held for sale	994	2,293	2,323	4,069
Other	331	325	843	824
Total noninterest income	14,344	15,424	26,828	30,186
Noninterest expense				
Salaries and employee benefits	13,052	13,736	26,249	28,480
Data processing	1,580	1,430	3,006	2,759
Net occupancy and equipment	2,926	3,063	5,857	6,312
Professional fees	881	907	1,747	1,834
Advertising and public relations	978	895	1,868	1,864
Intangible amortization	470	494	946	995
Communications	1,047	1,205	2,133	2,299
Other	5,254	5,402	10,016	9,509

Edgar Filing: RENASANT CORP - Form 10-Q

Total noninterest expense	26,188	27,132	51,822	54,052
Income before income taxes	4,836	5,752	9,431	13,867
Income taxes	1,040	1,496	2,028	3,605
Net income	\$ 3,796	\$ 4,256	\$ 7,403	\$ 10,262
Basic earnings per share	\$ 0.18	\$ 0.20	\$ 0.35	\$ 0.49
Diluted earnings per share	\$ 0.18	\$ 0.20	\$ 0.35	\$ 0.48
Cash dividends per common share	\$ 0.17	\$ 0.17	\$ 0.34	\$ 0.34

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**Renasant Corporation and Subsidiaries****Condensed Consolidated Statements of Cash Flows (Unaudited)****(In Thousands)**

	Six Months Ended June 30,	
	2010	2009
Operating activities		
Net cash provided by operating activities	\$ 47,163	\$ 17,486
Investing activities		
Purchases of securities available for sale	(210,233)	(220,514)
Proceeds from sales of securities available for sale	91,744	102,490
Proceeds from call/maturities of securities available for sale	134,017	123,969
Purchases of securities held to maturity	(28,712)	
Proceeds from call/maturities of securities held to maturity	6,380	
Net decrease in loans	56,581	40,442
Proceeds from sales of premises and equipment	8	68
Purchases of premises and equipment	(1,365)	(726)
Net cash provided by investing activities	48,420	45,729
Financing activities		
Net increase in noninterest-bearing deposits	8,347	7,902
Net increase in interest-bearing deposits	103,765	247,977
Net decrease in short-term borrowings	(5,115)	(274,113)
Proceeds from long-term debt		52,935
Repayment of long-term debt	(153,042)	(46,938)
Cash paid for dividends	(7,186)	(7,181)
Cash received on exercise of stock-based compensation	229	88
Net cash used in financing activities	(53,002)	(19,330)
Net increase in cash and cash equivalents	42,581	43,885
Cash and cash equivalents at beginning of period	148,560	100,394
Cash and cash equivalents at end of period	\$ 191,141	\$ 144,279
Supplemental disclosures		
Transfers of loans to other real estate	\$ 16,602	\$ 11,382

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

Renasant Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note A Summary of Significant Accounting Policies

Basis of Presentation

Renasant Corporation (referred to herein as the Company) offers a diversified range of financial and insurance services to its retail and commercial customers through its subsidiaries and full service offices located throughout north and north central Mississippi, west and middle Tennessee and north and north central Alabama.

The accompanying unaudited condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information regarding the Company's accounting policies, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The Company has evaluated subsequent events that have occurred after June 30, 2010 through the date of issuance of its financial statements for consideration of recognition or disclosure.

Subsequent Events

On July 23, 2010, Renasant Bank (the Bank) entered into a purchase and assumption agreement with loss-sharing arrangements with the Federal Deposit Insurance Corporation (the FDIC) to acquire specified assets and assume specified liabilities of Crescent Bank & Trust Company, a Georgia-chartered bank headquartered in Jasper, Georgia (Crescent).

Based upon a preliminary closing with the FDIC, the Bank acquired approximately \$1.0 billion in assets, including approximately \$600 million in loans and other real estate, \$50 million in investment securities and \$340 million in cash and cash equivalents, and the Bank assumed approximately \$941 million in liabilities, including approximately \$900 million in deposits of Crescent Bank and \$25 million in liabilities to the Federal Home Loan Bank of Atlanta. The Bank paid the FDIC a 1.0% premium for the right to assume the retail deposits of Crescent.

The Crescent loans and other real estate acquired are covered by a loss-sharing arrangement where the FDIC has agreed to cover 80% of losses with respect to the covered assets. The Bank has a corresponding obligation to reimburse the FDIC for 80% of eligible recoveries with respect to covered assets. In addition, after the 10th anniversary of the acquisition, the FDIC has a right to recover a portion of its shared-loss reimbursements if losses on the covered assets are less than \$242 million. The loss sharing agreement applicable to single-family residential mortgage loans provides for loss sharing with the FDIC to run for ten years, and the loss sharing agreement applicable to commercial and other assets provides for loss sharing with the FDIC to run for five years, with additional recovery sharing for three years thereafter.

The Bank did not immediately acquire the banking premises of Crescent as a part of the purchase and assumption agreement. The Bank has an option, exercisable for 90 days following the closing of the acquisition, to purchase any bank premises that were owned by, or assume any leases relating to bank premises leased by, Crescent from the FDIC.

In addition, on July 23, 2010, the Company issued and sold 3,925,000 shares of its \$5.00 par value per share common stock at a purchase price of \$14.00 per share in a private placement with accredited institutional investors. The gross proceeds to the Company from the private placement were \$54.95 million.

Table of Contents

Renasant Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Note A Summary of Significant Accounting Policies (continued)

Impact of Recently-Issued Accounting Standards and Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued an update to Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, (ASC 820) that requires new disclosures and clarifications of existing disclosures about recurring and nonrecurring fair value measurements. As to new disclosure requirements, a reporting entity must disclose separately the amount of significant transfers in and out of Level 1 and Level 2 fair value measurements, describe the reasons for the transfers, and present separately information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using Level 3 inputs. As to clarifications of existing disclosures, a reporting entity should provide fair value measurements for each class within each category of assets and liabilities, and provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements, which are effective beginning after December 15, 2010, and for interim periods within those fiscal years. See Note H, Fair Value of Financial Instruments, in these Notes to Condensed Consolidated Financial Statements for further disclosures regarding the Company's adoption of this update. The Company is currently in the process of evaluating the impact on its financial statements of adopting the portion of this update regarding disclosures presenting separately information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using Level 3 inputs.

In July 2010, the FASB issued an update to ASC Topic 310, Receivables, that requires enhanced and additional disclosures that will provide financial statement users with greater transparency about a reporting entity's allowance for credit losses and the credit quality of its financial receivables. A reporting entity is to provide disclosures that facilitate financial statement users' evaluation of the nature of credit risk inherent in its portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. To achieve those objectives, a reporting entity should provide disclosures on a disaggregated basis: by portfolio segment and/or by class of financing receivable. This update to ASC Topic 310 amends existing disclosures to require a reporting entity to provide a rollforward schedule of the allowance for credit losses on a portfolio segment basis, with the ending balance further disaggregated on the basis of the impairment method, and requires nonaccrual, past due 90 days or more and still accruing and impaired financing receivables to be presented by class. Additional disclosures include credit quality indicators of financing receivables at the end of the reporting period presented by class, the aging of past due financing receivables at the end of the reporting period presented by class, the nature and extent of troubled debt restructurings that occurred during the period presented by class and their effect on the allowance for credit losses, the nature and extent of financing receivables modified as troubled debt restructurings within the previous twelve months that defaulted during the reporting period presented by class and their effect on the allowance for credit losses, and significant purchases and sales of financing receivables during the reporting period presented by portfolio segment. This update to ASC Topic 310 is effective for interim and annual reporting periods beginning after December 15, 2010. The Company is currently in the process of evaluating the impact of adopting this update on its financial statements.

Table of Contents**Renasant Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note B Securities****(In Thousands)**

The amortized cost and fair value of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010				
Obligations of other U.S. Government agencies and corporations	\$ 99,995	\$ 1,130	\$	\$ 101,125
Mortgage-backed securities	397,416	15,980	(220)	413,176
Trust preferred securities	34,598	157	(22,170)	12,585
Other equity securities	33,976	298		34,274
	\$ 565,985	\$ 17,565	\$ (22,390)	\$ 561,160
December 31, 2009				
Obligations of other U.S. Government agencies and corporations	\$ 63,130	\$ 191	\$ (289)	\$ 63,032
Mortgage-backed securities	445,647	13,589	(1,345)	457,891
Trust preferred securities	33,803	137	(19,502)	14,438
Other equity securities	39,971	26		39,997
	\$ 582,551	\$ 13,943	\$ (21,136)	\$ 575,358

Gross gains on sales of securities available for sale for the six months ended June 30, 2010 were \$2,568, compared to gross losses on sales of securities available for sale of \$519 for the same period. Gross gains on sales of securities available for sale for the six months ended June 30, 2009 were \$2,195. These gains in 2009 were offset by the complete write-off of the Company's \$645 investment in Silverton Financial Services, Inc., the holding company of Silverton Bank, N.A., which was placed in receivership on May 1, 2009. The cost of securities sold is based on the specific identification method.

The amortized cost and fair value of securities held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010				
Obligations of states and political subdivisions	\$ 160,480	\$ 1,997	\$ (389)	\$ 162,088
December 31, 2009				
Obligations of states and political subdivisions	\$ 138,806	\$ 958	\$ (331)	\$ 139,433

The amortized cost and fair value of securities at June 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	\$	\$	\$ 8,467	\$ 8,479
Due after one year through five years	7,987	8,111	40,810	41,101
Due after five years through ten years	86,962	87,920	44,505	45,257
Due after ten years	39,644	17,679	66,698	67,251
Mortgage-backed securities	397,416	413,176		
Other equity securities	33,976	34,274		
	\$ 565,985	\$ 561,160	\$ 160,480	\$ 162,088

Table of Contents**Renasant Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note B Securities (continued)**

The following table presents the age of gross unrealized losses and fair value by investment category:

Available for Sale:	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010						
Obligations of other U.S Government agencies and corporations	\$	\$	\$	\$	\$	\$
Mortgage-backed securities	31,196	(198)	2,261	(22)	33,457	(220)
Trust preferred securities			9,428	(22,170)	9,428	(22,170)
Other equity securities						
Total	\$ 31,196	\$ (198)	\$ 11,689	\$ (22,192)	\$ 42,885	\$ (22,390)
December 31, 2009						
Obligations of other U.S Government agencies and corporations	\$ 30,238	\$ (289)	\$	\$	\$ 30,238	\$ (289)
Mortgage-backed securities	56,044	(872)	6,350	(473)	62,394	(1,345)
Trust preferred securities			11,301	(19,502)	11,301	(19,502)
Other equity securities						
Total	\$ 86,282	\$ (1,161)	\$ 17,651	\$ (19,975)	\$ 103,933	\$ (21,136)
Held to Maturity:	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010						
Obligations of states and political subdivisions	\$ 24,316	\$ (389)	\$	\$	\$ 24,316	\$ (389)
December 31, 2009						
Obligations of states and political subdivisions	\$ 64,155	\$ (331)	\$	\$	\$ 64,155	\$ (331)

The Company evaluates its investment portfolio for other-than-temporary-impairment (OTTI) on a quarterly basis. Impairment is assessed at the individual security level. The Company considers an investment security impaired if the fair value of the security is less than its cost or amortized cost basis.

When impairment of an equity security is considered to be other-than-temporary, the security is written down to its fair value and an impairment loss is recorded as a loss within noninterest income in the Consolidated Statements of Income. When impairment of a debt security is considered to be other-than-temporary, the amount of OTTI recorded as a loss within noninterest income depends on whether an entity intends to sell the security or whether it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis. If an entity intends to, or has decided to, sell the debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis, OTTI must be recognized in earnings in an amount equal to the entire difference between the security's amortized cost basis

Edgar Filing: RENASANT CORP - Form 10-Q

and its fair value. If an entity does not intend to sell the debt security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, OTTI is separated into the amount representing credit loss and the amount related to all other market factors. The amount related to credit loss is recognized in earnings. The amount related to other market factors is recognized in other comprehensive income, net of applicable taxes.

Table of Contents**Renasant Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note B Securities (continued)**

The Company holds investments in pooled trust preferred securities. This portfolio had a cost basis of \$31,598 and \$30,803 and a fair value of \$9,428 and \$11,301 at June 30, 2010 and December 31, 2009, respectively. The investment in pooled trust preferred securities consists of four securities representing interests in various tranches of trusts collateralized by debt issued by over 321 financial institutions. Management's determination of the fair value of each of its holdings in pooled trust preferred securities is based on the current credit ratings, the known deferrals and defaults by the underlying issuing banks and the degree to which future deferrals and defaults would be required to occur before the cash flow for the Company's tranches is negatively impacted. In addition, management continually monitors key credit quality and capital ratios of the issuing institutions. This determination is further supported by quarterly valuations of each security obtained by the Company performed by third parties. The Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of its amortized cost, which may be maturity. At June 30, 2010, management did not, and does not currently, believe such securities will be settled at a price less than the amortized cost of the investment and that no additional impairment was required.

The following table provides information regarding the Company's investments in pooled trust preferred securities as of June 30, 2010:

Name	Single/ Pooled	Class/ Tranche	Amortized Cost	Fair Value	Unrealized Loss	Lowest Credit Rating	Issuers Currently in Deferral or Default	Estimated Additional Deferral or
								Default before Credit Impairment
XXIV	Pooled	B2	\$ 14,178	\$ 2,927	\$ (11,251)	Caa3	35%	12%
XXVI	Pooled	B2	5,371	1,654	(3,717)	Ca	34%	15%
XXIII	Pooled	B2	10,257	4,237	(6,020)	Ca	28%	22%
XIII								