NBC CAPITAL CORP
Form 10-Q
May 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1-15773

NBC CAPITAL CORPORATION

(Exact name of registrant as specified in its charter.)

Mississippi	**64-0694775**
(State or other jurisdiction of incorporation or organization)	**(I. R. S. Employer Identification No.)**
301 East Main Street, P. O. Box 1187, Starkville, Mississippi	**39760**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (662) 323-1341

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 x 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 x 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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock, $1 Par Value 8,186,724 shares as of March 31, 2006.

NBC CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

FOR THREE MONTHS ENDED MARCH 31, 2006 AND 2005

(Unaudited)

(Amounts in thousands, except per share data)	**2006**	**2005**
INTEREST INCOME		
Interest and fees on loans	$ 15,423	$ 12,281
Interest and dividends on securities	5,019	4,889
Other interest income	169	140
Total interest income	20,611	17,310
INTEREST EXPENSE		
Interest on deposits	6,613	4,307
Interest on borrowed funds	2,256	1,818
Total interest expense	8,869	6,125
Net interest income	11,742	11,185
Provision for loan losses	401	635
Net interest income after provision for loan losses	11,341	10,550
OTHER INCOME		
Service charges on deposit accounts	1,985	1,870
Insurance commissions, fees and premiums	1,125	1,134
Trust Department income	526	506
Mortgage loan fees	140	177
Other income	967	1,546
Securities gains (losses), net	2	(3)
Total other income	4,745	5,230
OTHER EXPENSE		
Salaries and employee benefits	6,792	5,893
Premises and fixed asset expense	1,576	1,613
Other expense	3,266	3,002
Total other expense	11,634	10,508
Income before income taxes	4,452	5,272
Income taxes	1,202	1,530
Net income	$ 3,250	$ 3,742
Net income per share:		
Basic	$ 0.40	$ 0.46
Diluted	$ 0.40	$ 0.46

Dividends per common share	$ 0.25	$ 0.24

NBC CAPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands)	**March 31, 2006 (Unaudited)**	**Dec. 31, 2005**
ASSETS		
Cash and due from banks	$ 38,062	$ 37,053
Interest-bearing deposits with banks	1,423	4,745
Federal funds sold and securities purchased under agreements to resell	18,301	1,324
Total cash and cash equivalents	57,786	43,122
Securities available-for-sale	416,487	407,532
Securities held-to-maturity (estimated fair value of $25,582 at March 31, 2006 and $25,681 at December 31, 2005)	23,758	23,755
Other securities	11,243	11,153
Total securities	451,488	442,440
Loans	862,239	860,644
Less: allowance for loan losses	(9,501)	(9,312)
Net loans	852,738	851,332
Interest receivable	8,763	8,765
Premises and equipment, net	20,867	19,243
Goodwill and other intangible assets	39,358	39,654
Other assets	43,168	41,561
Total Assets	$ 1,474,168	$ 1,446,117
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Noninterest-bearing deposits	$ 159,783	$ 167,023
Interest-bearing deposits	984,548	954,661
Total deposits	1,144,331	1,121,684
Interest payable	2,637	2,438
Federal funds purchased and securities sold under agreements to repurchase	60,074	58,571
Subordinated debentures	37,114	37,114
Other borrowed funds	99,723	97,822
Other liabilities	12,052	11,504
Total liabilities	1,355,931	1,329,133
Shareholders Equity:		
Common stock - $1 par value, authorized 50,000,000 shares in 2006 and 2005; issued 9,615,806 shares in 2006 and 2005	9,616	9,616
Surplus	53,693	53,749
Retained earnings	90,719	89,516
Accumulated other comprehensive income (loss)	(8,327)	(8,160)
Treasury stock, at cost	(27,464)	(27,737)
Total shareholders equity	118,237	116,984

Total Liabilities and Shareholders Equity	$ 1,474,168	$ 1,446,117

NBC CAPITAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED MARCH 31, 2006 AND 2005

(Unaudited)

(In thousands)	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,250	$ 3,742
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	866	1,120
Deferred income taxes	48	2,816
Provision for loan losses	401	635
Loss (gain) on sale of securities, net	(2)	3
(Increase) decrease in interest receivable	2	204
(Increase) decrease in other assets	(1,581)	(1,693)
Increase (decrease) in interest payable	199	(28)
Increase (decrease) in other liabilities	548	(524)
Net cash provided by operating activities	3,731	6,275
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities	7,727	17,917
Proceeds from sale of securities		1,603
Purchase of securities	(17,026)	(3,298)
(Increase) decrease in loans	(1,807)	22,441
(Additions) disposal of premises and equipment	(2,187)	(231)
Net cash provided by (used in) investing activities	(13,293)	38,432
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits	22,647	(49,789)
Dividend paid on common stock	(2,043)	(1,959)
Increase (decrease) in borrowed funds	3,404	(1,728)
Other financing activities	218	42
Net cash provided by (used in) financing activities	24,226	(53,434)
Net increase (decrease) in cash and cash equivalents	14,664	(8,727)
Cash and cash equivalents at beginning of year	43,122	49,427
Cash and cash equivalents at end of quarter	$ 57,786	$ 40,700
Cash paid during the period for:		
Interest	$ 8,670	$ 6,153
Income taxes	$ 93	$ 95

NBC CAPITAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements include the accounts of NBC Capital Corporation (the Corporation) and Cadence Bank, N.A. (Cadence or the Bank), a wholly owned subsidiary of the Corporation, Enterprise Bancshares, Inc. (Enterprise), a wholly owned subsidiary of the Corporation, Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM), a wholly owned subsidiary of Cadence, NBC Insurance Services of Alabama, Inc. (Insurance), a wholly owned subsidiary of Cadence, NBC Service Corporation (Service), a wholly owned subsidiary of Cadence, and Commerce National Insurance Company (CNIC), a wholly owned subsidiary of Service. All significant intercompany accounts and transactions have been eliminated.

In the normal decision making process, management makes certain estimates and assumptions that affect the reported amounts that appear in these statements. Although management believes that the estimates and assumptions are reasonable and are based on the best information available, actual results could differ.

In the opinion of management, all adjustments necessary for the fair presentation of the financial statements presented in this report have been made. Such adjustments were of a normal recurring nature.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Corporation s latest annual report on Form 10-K.

Note 1. Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, Accounting for Certain Hybrid Financial Instruments. This Statement amends Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to clarify the treatment of interest-only and principal-only strips on debt instruments under the Statement. Statement No. 155 also amends Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to allow a qualifying special-purpose entity to hold additional types of derivative instruments. The Statement is effective for all financial instruments acquired or issued after the beginning of the first fiscal year beginning after September 15, 2006. As the Corporation holds no interest-only or principal-only strips on debt instruments and does not utilize special-purpose entities to hold derivative instruments, Statement No. 155 will not impact the Corporation s consolidated financial statements.

In March 2006, the FASB issued Statement No. 156, Accounting for Servicing of Financial Assets. This Statement simplifies the accounting for servicing assets and liabilities, such as those associated with mortgage securitization activities. The Statement is effective for all separately recognized servicing assets and liabilities acquired or issued after the beginning of a company s fiscal year beginning after September 15, 2006. As the Corporation does not conduct any servicing activities associated with mortgage securitization, Statement No. 156 will not impact the Corporation s consolidated financial statements.

Note 2. Goodwill and Other Intangible Assets

Goodwill represents the cost of acquired institutions in excess of the fair value of the net assets acquired. In accordance with FASB Statement No. 142, Goodwill and Other Intangible Assets, the Corporation does not amortize goodwill but performs periodic testing of goodwill for impairment. At March 31, 2006, the Corporation had approximately $36.3 million of goodwill on its consolidated balance sheet, which will remain at that level unless it becomes impaired under the definition of impairment in Statement No. 142.

Other identifiable intangible assets consist primarily of the core deposit premium arising from acquisitions. The core deposit premium was established using the discounted cash flow approach and is being amortized using an accelerated method over the estimated remaining life of the acquired core deposits.

Note 3. Stock Options

Prior to January 1, 2006, the Corporation s stock option plans were accounted for under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation. As such, the Corporation did not recognize any compensation expense for stock options granted, since all stock options were priced at the fair market value of the Corporation s common stock on the date of grant.

The following table illustrates the effect on net earnings and earnings per share if the Corporation had applied the fair value recognition provisions of Statement No. 123 to options granted under the Corporation s stock option plans for the three months ended March 31, 2005:

(Amounts in thousands except per share data)		**Three Months Ended March 31, 2005**
Net income, as reported	$	3,742
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(65)
Pro forma net income	$	3,677
Basic net earnings per share:		
As reported	$	0.46
Pro forma		0.45
Diluted net earnings per share:		
As reported	$	0.46
Pro forma		0.45

In the third quarter of 2005, the Compensation Committee of the Board of Directors reviewed the Corporation s stock option plans and the outstanding options. All outstanding options that were not vested were out-of-the-money and had been in that position for much of the year. In the Committee s opinion, the options were not achieving their intended purposes of incentive compensation and employee retention; thus, the Committee recommended to the Board of Directors that all outstanding options be vested. The Board of Directors voted to vest all outstanding options, effective August 31, 2005. In accordance with the disclosure requirements of Statement No. 123, the expense reflected in the Corporation s September 30, 2005 and December 31, 2005 statements of income includes all of the remaining expense associated with the Corporation s outstanding options.

For the quarter ended March 31, 2006, the Corporation adopted FASB Statement No. 123(R), Share-Based Payment. This Statement requires that the fair value of equity instruments exchanged for employee services, as determined on the grant date of the award, be recognized as compensation cost over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period). Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The Statement s provisions are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date.

As all of the Corporation s outstanding options are fully vested, the adoption of Statement No. 123(R) will not impact the Corporation s future results of operations unless the Board of Directors makes additional grants under the current plans or under any new stock-based compensation plans adopted by shareholders.

Note 4. Variable Interest Entity

On December 30, 2003, the Corporation issued $30,928,000 of floating rate junior subordinated deferrable interest debentures to NBC Capital Corporation (MS) Statutory Trust I (the Trust), a Connecticut business trust, in which the Corporation owns all of the common equity. The debentures are the sole asset of the Trust. The net proceeds received by the Corporation from the issuance of the debentures were used for the Enterprise acquisition. The Trust issued $30 million of Trust Preferred Securities (TPSs) to investors. The Corporation s obligation under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Corporation of the Trust s obligation under the TPSs. The TPSs are redeemable at the Corporation s option on December 30, 2008, or earlier in the event the deduction of related interest for federal income taxes is prohibited, treatment as Tier 1 capital is no longer permitted, or certain other contingencies arise. Thereafter, the TPSs may be redeemed in whole or in part on any interest payment date. The TPSs must be redeemed upon maturity of the debentures in 2033. The interest rate on the debentures and the TPSs is the three-month London Interbank Offer Rate (LIBOR) plus 2.85%, and adjusts quarterly. Interest is payable on a quarterly basis.

With the acquisition of Enterprise, the Corporation assumed the liability for an additional $6.2 million in subordinated debentures issued to support TPSs. As a result, the Corporation became the sole shareholder of Enterprise (TN) Statutory Trust I, a Connecticut business trust. The original issue date on these TPSs and subordinated debentures was December 19, 2002 and the maturity date is December 19, 2032. These securities can also be redeemed in whole or in part at any interest payment date after December 19, 2007. The interest rate on these debentures and TPSs is three-month LIBOR plus 3.25%, and adjusts quarterly. Interest is payable on a quarterly basis.

In accordance with FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, neither of the above-referenced trusts is consolidated into the financial statements of the Corporation.

Note 5. Comprehensive Income

The following table discloses comprehensive income for the periods reported in the Consolidated Statements of Income:

	Three Months Ended March 31,	
(In thousands)	**2006**	**2005**
Net income	$ 3,250	$ 3,742
Other comprehensive income (loss), net of tax:		
Reclassification adjustment for (gain) loss included in net income	(2)	2
Unrealized gains (losses) on securities	(165)	(2,316)
	(167)	(2,314)
Comprehensive income (loss)	3,083	1,428
Accumulated comprehensive income (loss)	$ (8,327)	$ (6,688)

Note 6. Defined Benefit Pension Plan

The following table contains the components of the net periodic benefit cost of the Corporation s defined benefit pension plan for the periods indicated:

	Three Months Ended March 31,	
(In thousands)	**2006**	**2005**
Service cost	$	