IBERIABANK CORP
Form 10-Q
August 09, 2007
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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, 2007

Commission File Number 0-25756

IBERIABANK Corporation

(Exact name of registrant as specified in its charter)

Louisiana	**72-1280718**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
200 West Congress Street	
Lafayette, Louisiana	**70501**
(Address of principal executive office)	**(Zip Code)**

(337) 521-4003

(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 x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Securities Exchange Act Rule 12b-2).

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

At July 31, 2007, the Registrant had 12,855,187 shares of common stock, $1.00 par value, which were issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

IBERIABANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	(Unaudited) June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 88,911	$ 51,078
Interest-bearing deposits in banks	54,540	33,827
Total cash and cash equivalents	143,451	84,905
Securities available for sale, at fair value	755,633	558,832
Securities held to maturity, fair values of $60,465 and $22,677, respectively	61,179	22,520
Mortgage loans held for sale	97,358	54,273
Loans, net of unearned income	3,179,231	2,234,002
Allowance for loan losses	(37,826)	(29,922)
Loans, net	3,141,405	2,204,080
Premises and equipment, net	125,948	71,007
Goodwill	231,382	92,779
Other assets	175,444	114,640
Total Assets	$ 4,731,800	$ 3,203,036
Liabilities		
Deposits:		
Noninterest-bearing	$ 458,113	$ 354,961
Interest-bearing	2,968,412	2,067,621
Total deposits	3,426,525	2,422,582
Short-term borrowings	467,122	202,605
Long-term debt	331,780	236,997
Other liabilities	34,252	21,301
Total Liabilities	4,259,679	2,883,485
Shareholders Equity		
Preferred stock, $1 par value -5,000,000 shares authorized		
Common stock, $1 par value - 25,000,000 shares authorized; 14,799,759 and 12,378,902 shares issued, respectively	14,800	12,379
Additional paid-in-capital	356,584	214,483
Retained earnings	184,472	173,794
Accumulated other comprehensive income	(8,016)	(3,306)
Treasury stock at cost - 1,915,646 and 2,092,471 shares, respectively	(75,719)	(77,799)

Total Shareholders Equity	472,121	319,551
Total Liabilities and Shareholders Equity	$ 4,731,800	$ 3,203,036

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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IBERIABANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars in thousands, except per share data)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2007	2006	2007	2006
Interest and Dividend Income				
Loans, including fees	$ 53,193	$ 31,466	$ 99,093	$ 61,152
Mortgage loans held for sale, including fees	1,263	180	2,111	333
Investment securities:				
Taxable interest	9,426	6,940	17,916	13,231
Tax-exempt interest	956	498	1,751	1,034
Other	978	809	2,045	1,630
Total interest and dividend income	65,816	39,893	122,916	77,380
Interest Expense				
Deposits	26,860	13,911	50,293	25,982
Short-term borrowings	3,908	475	6,218	787
Long-term debt	4,384	2,752	8,250	5,436
Total interest expense	35,152	17,138	64,761	32,205
Net interest income	30,664	22,755	58,155	45,175
(Reversal of) Provision for loan losses	(595)	(1,902)	(384)	(1,467)
Net interest income after provision for loan losses	31,259	24,657	58,539	46,642
Noninterest Income				
Service charges on deposit accounts	5,025	3,242	9,046	6,244
ATM/debit card fee income	1,085	859	2,047	1,659
Income from bank owned life insurance	592	515	2,087	1,024
Gain on sale of loans, net	4,910	393	7,719	786
Title income	5,824		8,017	
Broker commissions	1,388	955	2,664	1,897
Other income	2,977	(706)	4,372	(85)
Total noninterest income	21,801	5,258	35,952	11,525
Noninterest Expense				
Salaries and employee benefits	21,169	9,440	38,218	19,011
Occupancy and equipment	5,160	2,291	9,095	4,631
Franchise and shares tax	820	794	1,618	1,674
Communication and delivery	1,633	725	2,777	1,535
Marketing and business development	792	544	1,337	1,033
Data processing	1,238	679	2,416	1,217
Printing, stationery and supplies	585	278	985	511
Amortization of acquisition intangibles	673	283	1,209	573
Professional services	987	605	1,751	1,052

Other expenses	5,844	1,823	8,798	3,340
Total noninterest expense	38,901	17,462	68,204	34,577
Income before income tax expense	14,159	12,453	26,287	23,590
Income tax expense	4,132	3,598	7,105	6,689
Net Income	$ 10,027	$ 8,855	$ 19,182	$ 16,901
Earnings per share - basic	$ 0.80	$ 0.95	$ 1.60	$ 1.81
Earnings per share - diluted	$ 0.78	$ 0.89	$ 1.53	$ 1.71

The accompanying Notes are an integral part of these Consolidated Financial Statements.

IBERIABANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (unaudited)

(dollars in thousands, except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, December 31, 2005	$ 11,802	$ 190,655	$ 150,107	$ (9,594)	$ (5,629)	$ (73,772)	$ 263,569
Comprehensive income:							
Net income			16,901				16,901
Change in unrealized loss on securities available for sale, net of taxes					(6,695)		(6,695)
Change in fair value of derivatives used for cash flow hedges, net of taxes					529		529
Total comprehensive income							10,735
Cash dividends declared, $0.58 per share			(5,614)				(5,614)
Reissuance of treasury stock under stock option plan, net of shares surrendered in payment, including tax benefit, 159,286 shares		2,238				2,004	4,242
Reclassification of unearned compensation due to adoption of SFAS 123(R)		(9,594)		9,594			
Common stock issued for recognition and retention plan		(1,314)				1,314	
Share-based compensation cost		1,482					1,482
Treasury stock acquired at cost, 138,253 shares						(8,032)	(8,032)
Balance, June 30, 2006	$ 11,802	$ 183,467	$ 161,394	$	$ (11,795)	$ (78,486)	$ 266,382
Balance, December 31, 2006	$ 12,379	$ 214,483	$ 173,794	$	$ (3,306)	$ (77,799)	$ 319,551
Comprehensive income:							
Net income			19,182				19,182
Change in unrealized loss on securities available for sale, net of taxes					(4,756)		(4,756)
Change in fair value of derivatives used for cash flow hedges, net of taxes					46		46
Total comprehensive income							(4,710)
Cash dividends declared, $0.66 per share			(8,504)				(8,504)
Reissuance of treasury stock under stock option plan, net of shares surrendered in payment, including tax benefit, 62,344 shares		538				770	1,308
Common stock issued for recognition and retention plan		(2,794)				2,780	(14)
Common stock issued for acquisitions	2,421	142,190					144,611
Share-based compensation cost		2,167					2,167
Treasury stock acquired at cost, 27,000 shares						(1,470)	(1,470)
Balance, June 30, 2007	$ 14,800	$ 356,584	$ 184,472	$	$ (8,016)	$ (75,719)	$ 472,121

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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IBERIABANK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)

	For The Six Months Ended June 30, 2007	2006
Cash Flows from Operating Activities		
Net income	$ 19,182	$ 16,901
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,970	2,617
(Reversal of) Provision for loan losses	(384)	(1,467)
Noncash compensation expense	2,152	1,482
Gain on sale of assets	(110)	(28)
Loss (Gain) on sale of investments	(15)	1,389
Amortization of premium/discount on investments	(1,558)	(55)
Derivative gain on swaps	217	
Net change in loans held for sale	(16,629)	(2,944)
Tax benefit associated with share-based payment arrangements	(476)	(2,023)
Other operating activities, net	(856)	(4,052)
Net Cash Provided by Operating Activities	6,493	11,820
Cash Flows from Investing Activities		
Proceeds from sales of securities available for sale	134	40,181
Proceeds from maturities, prepayments and calls of securities available for sale	159,677	167,002
Purchases of securities available for sale	(159,260)	(270,613)
Proceeds from maturities, prepayments and calls of securities held to maturity	11,675	4,523
Increase in loans receivable, net	(187,459)	(116,105)
Proceeds from sale of premises and equipment	563	634
Purchases of premises and equipment	(10,646)	(12,179)
Proceeds from disposition of real estate owned	2,489	648
Cash paid in excess of cash received in acquisition	(5,836)	
Other investing activities, net	(5,441)	1,549
Net Cash (Used in) Provided by Investing Activities	(194,104)	(184,360)
Cash Flows from Financing Activities		
Increase (Decrease) in deposits	(779)	126,275
Net change in short-term borrowings	225,517	13,929
Proceeds from long-term debt	35,000	
Repayments of long-term debt	(6,003)	(6,440)
Dividends paid to shareholders	(7,416)	(5,389)
Proceeds from sale of treasury stock for stock options exercised	833	2,219
Purchases of treasury stock	(1,471)	(8,032)
Tax benefit associated with share-based payment arrangements	476	2,023
Net Cash Provided by Financing Activities	246,157	124,585
Net (Decrease) Increase In Cash and Cash Equivalents	58,546	(47,955)

Cash and Cash Equivalents at Beginning of Period	84,905	126,800
Cash and Cash Equivalents at End of Period	$ 143,451	$ 78,845
Supplemental Schedule of Noncash Activities		
Acquisition of real estate in settlement of loans	$ 3,885	$ 642
Common stock issued in acquisition	$ 144,611	$
Exercise of stock options with payment in company stock	$ 529	$ 384
Supplemental Disclosures		
Cash paid for:		
Interest on deposits and borrowings	$ 62,464	$ 32,387
Income taxes, net	$ 1,500	$ 7,100

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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IBERIABANK CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. These interim financial statements should be read in conjunction with the audited financial statements and note disclosures for the Company previously filed with the Securities and Exchange Commission in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

The consolidated financial statements include the accounts of IBERIABANK Corporation and its wholly owned subsidiaries, IBERIABANK, Pulaski Bank and Trust Company (Pulaski Bank), and Lenders Title Company (LTC). All significant intercompany balances and transactions have been eliminated in consolidation. The Company offers commercial and retail banking products and services to customers throughout several locations in four states through IBERIABANK and Pulaski Bank. The Company also operates mortgage production offices in eight states through Pulaski Bank s subsidiary, Pulaski Mortgage Company (PMC) and offers a full line of title insurance and closing services throughout Arkansas and Louisiana through LTC and its subsidiaries.

All normal, recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial statements, have been included. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are susceptible to significant change in the near term are the allowance for loan losses, valuation of goodwill, intangible assets and other purchase accounting adjustments and share based compensation.

Certain amounts reported in prior periods have been reclassified to conform to the current period presentation. Such reclassifications had no effect on previously reported shareholders equity or net income.

Note 2 Acquisition Activity

On January 31, 2007, the Company acquired all of the outstanding stock of Pulaski Investment Corporation (PIC), the holding company for Pulaski Bank of Little Rock, Arkansas, for 1,133,064 shares of the Company s common stock and cash of $65.0 million. The transaction was accounted for as a purchase and had a total value of approximately $130,818,000. The acquisition extends the Company s presence into central Arkansas and other states through its mortgage subsidiary, PMC.

The PIC transaction resulted in $93,212,000 of goodwill and $5,617,000 of core deposit intangibles. The goodwill acquired is not tax deductible. The amount allocated to the core deposit intangible was determined by an independent valuation and is being amortized over the estimated useful life of ten years using the straight line method.

In the acquisition, shareholders of PIC received total consideration of $53.63 per outstanding share of PIC common stock in exchange for a combination of the Company s common stock and cash. The purchase price was allocated as follows:

(dollars in thousands)	**Amount**
Cash and due from banks	$ 16,885
Investment securities	47,438
Loans, net	366,910
Premises and equipment, net	32,632
Goodwill	93,212
Core deposit and other intangibles	10,851
Other assets	12,678
Deposits	(422,618)
Borrowings	(23,698)
Other liabilities	(3,472)
Total purchase price	$ 130,818

Allocation of the purchase price is preliminary and subject to change based on the finalization of the fair value of assets acquired and liabilities assumed in connection with the transaction. During the second quarter of 2007, the Company recorded an adjustment of $1,749,000 to its Pulaski core deposit intangible asset to reflect the updated independent valuation of the asset. The final allocation of purchase price could affect the recorded goodwill value, but is not expected to have a material effect on post-acquisition operating results.

On February 1, 2007, the Company acquired all of the outstanding stock of Pocahontas Bancorp, Inc. (Pocahontas), the holding company for First Community Bank (FCB) of Jonesboro, Arkansas, for 1,287,793 shares of the Company s common stock. The transaction was accounted for as a purchase and had a total value of $75,424,000. The acquisition extends the Company s presence into Northeast Arkansas.

The Pocahontas transaction resulted in $41,181,000 of goodwill and $7,026,000 million of core deposit intangibles. The goodwill acquired is not tax deductible. The amount allocated to the core deposit intangible was determined by an independent valuation and is being amortized over the estimated useful life of ten years using the straight line method.

In the acquisition, shareholders of Pocahontas received total consideration of $16.28 per outstanding share of Pocahontas common stock. The purchase price was allocated as follows:

(dollars in thousands)	**Amount**
Cash and due from banks	$ 42,301
Investment securities	206,678
Loans, net	413,450
Premises and equipment, net	16,273
Goodwill	41,181
Core deposit and other intangibles	7,026
Other assets	21,476
Deposits	(582,435)
Borrowings	(81,390)
Other liabilities	(9,136)
Total purchase price	$ 75,424

Allocation of the purchase price is preliminary and subject to change based on the results of pending valuations for certain Pocahontas properties and finalization of the fair value of assets acquired and liabilities assumed in connection with the transaction. During the second quarter of 2007, the Company recorded an adjustment of $2,188,000 to its Pocahontas core deposit intangible asset to reflect the updated independent valuation of the asset. The final allocation of purchase price could affect the recorded goodwill value, but is not expected to have a material effect on post-acquisition operating results.

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Pulaski Bank and FCB were merged on April 22, 2007. The combined financial institution is a federal stock savings bank headquartered in Little Rock, Arkansas and operates under the corporate title of Pulaski Bank and Trust Company .

The Company paid a premium (i.e., Goodwill) over the fair value of the net tangible and identified intangible assets of PIC and Pocahontas for a number of reasons, including the following:

The acquisitions enhanced the Company s geographic diversification. Combined, the PIC and Pocahontas acquisitions significantly increased our presence in Arkansas and facilitated our entry into the Dallas, St. Louis and Memphis markets.

Both PIC and Pocahontas enjoy exceptional reputations in their respective communities. We believe that we can build upon those reputations.

The PIC acquisition allowed the Company to expand its noninterest income earnings stream with the addition of PMC, LTC, trust and investment management services and a nationwide credit card business.

The Company brings its products, services and operational practices to the acquired organizations. We believe that our products, services and these practices will enhance the profitability of the combined organizations.

In connection with the PIC and Pocahontas acquisitions, the Company acquired certain loans considered impaired and accounted for these loans under the provisions of the AICPA s Statement of Position 03-3 (SOP 03-3), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 requires the initial recognition of these loans at the present value of amounts expected to be received. The Company completed a review of the acquired loan portfolios to identify loans deemed to be impaired. As a result of this review, the Company recorded a discount totaling $2,462,000 on acquired impaired loans. The impaired loans had a principal balance of $13,750,000 at acquisition. The discount is reflected as a contra-asset in the Loans caption of the Consolidated Balance Sheet with the offsetting amount reflected as an increase to Goodwill.

The results of operations of the acquired companies subsequent to the acquisition dates are included in the Company s consolidated statements of income. The following pro forma information for the six months ended June 30, 2007 and 2006 reflects the Company s estimated consolidated results of operations as if the acquisitions of PIC and Pocahontas occurred at January 1, 2006, unadjusted for potential cost savings.

(dollars in thousands, except per share data)	**2007**	**2006**
Interest and noninterest income	$ 167,070	$ 158,807
Net income	$ 18,803	$ 21,560
Earnings per share basic	$ 1.51	$ 1.75
Earnings per share diluted	$ 1.46	$ 1.67

United Title of Louisiana, Inc. (United) was acquired on April 2, 2007. United operates 9 offices in Louisiana. The transaction was accounted for as a purchase and had a total value of approximately $5,800,000. United operates as a subsidiary of LTC.

Note 3 Earnings Per Share

For the three months ended June 30, 2007, basic earnings per share were based on 12,456,110 weighted average shares outstanding and diluted earnings per share were based on 12,914,251 weighted average shares outstanding. For the three months ended June 30, 2006, per share earnings were based on 9,354,218 and 9,939,973 weighted average basic and diluted shares, respectively.

For the same three month periods of 2007 and 2006, the calculations for both basic and diluted shares outstanding exclude: (a) the weighted average shares owned by the Recognition and Retention Plan Trust (RRP) of 427,160 and 344,000, respectively; and (b) the weighted average shares purchased in Treasury Stock of 1,916,490 and 2,103,762, respectively.

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For the six months ended June 30, 2007, basic earnings per share were based on 12,008,866 weighted average shares outstanding and diluted earnings per share were based on 12,501,444 weighted average shares outstanding. For the six months ended June 30, 2006, per share earnings were based on 9,323,358 and 9,912,292 weighted average basic and diluted shares, respectively.

For the same six month periods of 2007 and 2006, the calculations for both basic and diluted shares outstanding exclude: (a) the weighted average shares owned by the Recognition and Retention Plan Trust (RRP) of 397,060 and 326,347 respectively; and (b) the weighted average shares purchased in Treasury Stock of 1,973,002 and 2,152,275, respectively.

The effect from the assumed exercise of 314,604 and 116,904 stock options was not included in the computation of diluted earnings per share for June 30, 2007 and 2006, respectively, because such amounts would have had an antidilutive effect on earnings per share.

Note 4 Share-based Compensation

The Company has various types of share-based compensation plans. These plans are administered by the Compensation Committee of the Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions and other provisions of the awards. See Note 15 of the Company s consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for additional information related to these share-based compensation plans.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised), *Share-Based Payment* (SFAS No. 123(R)) utilizing the modified prospective method. Prior to the adoption of SFAS No. 123(R), the Company accounted for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees (the intrinsic value method), and accordingly, recognized no compensation expense for stock option grants, with the exception of $470,000 recorded in the fourth quarter of 2005 as a result of the acceleration of all outstanding unvested stock options.

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows. Based on the adoption of SFAS No. 123(R), the Company reported $476,000 and $2,023,000 of excess tax benefits as financing cash inflows during the first six months of 2007 and 2006, respectively. Net cash proceeds from the exercise of stock options were $833,000 and $2,219,000 for the six months ended June 30, 2007 and 2006, respectively.

The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based awards with the following weighted-average assumptions for the indicated periods.

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Expected dividends	2.0%	2.0%	2.0%	2.0%
Expected volatility	23.4%	24.5%	23.6%	24.8%
Risk-free interest rate	4.7%	5.1%	4.7%	4.7%
Expected term (in years)	7.0	7.0	7.0	7.0
Weighted-average grant-date fair value	$ 15.94	$ 17.57	$ 16.06	$ 16.48

The assumptions above are based on multiple factors, including historical stock option exercise patterns and post-vesting employment termination behaviors, expected future exercise patterns and