MIDSOUTH BANCORP INC
Form 10-Q
November 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012

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 1-11826
MIDSOUTH BANCORP, INC.
(Exact name of registrant as specified in its charter)

Louisiana	72 –1020809
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

102 Versailles Boulevard, Lafayette, Louisiana 70501
(Address of principal executive offices, including zip code)
(337) 237-8343
(Registrant’s telephone number, including area code)

Indicate by checkmark 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 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 (Section 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 x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Small 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 x

As of November 9, 2012, there were 10,479,077 shares of the registrant's Common Stock, par value $0.10 per share, outstanding.

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Part I – Financial Information

Item 1.Financial Statements.

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands, except share data)

	September 30, 2012 (unaudited)	December 31, 2011* (audited)
Assets		
Cash and due from banks, including required reserves of $6,576 and $7,990, respectively	$ 22,524	$ 26,775
Interest-bearing deposits in banks	34,631	56,128
Federal funds sold	2,500	400
Time deposits held in banks	709	710
Securities available-for-sale, at fair value (cost of $326,723 at September 30, 2012 and $355,496 at December 31, 2011)	341,170	367,241
Securities held-to-maturity (fair value of $121,969 at September 30, 2012 and $101,131 at December 31, 2011)	117,628	100,472
Other investments	5,820	5,637
Loans	808,833	746,305
Allowance for loan losses	(7,374)	(7,276)
Loans, net	801,459	739,029
Bank premises and equipment, net	48,086	44,598
Accrued interest receivable	5,562	5,607
Goodwill	24,824	24,959
Intangibles	6,567	7,147
Cash surrender value of life insurance	4,912	4,853
Other real estate	6,608	7,369
Other assets	5,936	5,831
Total assets	$ 1,428,936	$ 1,396,756
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$ 306,463	$ 254,755
Interest bearing	872,549	910,051
Total deposits	1,179,012	1,164,806
Securities sold under agreements to repurchase	55,233	46,078
Junior subordinated debentures	15,465	15,465
Other liabilities	10,891	8,570
Total liabilities	1,260,601	1,234,919
Commitments and contingencies		
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at September 30, 2012 and December 31, 2011	32,000	32,000
	1,063	1,062

Common stock, $0.10 par value; 30,000,000 shares authorized, 10,629,554 and 10,615,983 issued and 10,479,077 and 10,465,506 outstanding at September 30, 2012 and December 31, 2011, respectively				
Additional paid-in capital		99,066		98,842
Accumulated other comprehensive income		9,390		7,752
Treasury stock – 150,477 shares at September 30, 2012 and December 31, 2011, at cost		(3,286)		(3,286)
Retained earnings		30,102		25,467
Total shareholders’ equity		168,335		161,837
Total liabilities and shareholders’ equity	$	1,428,936	$	1,396,756

See notes to unaudited consolidated financial statements.
* Derived from audited financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Earnings (unaudited)
(in thousands, except per share data)

	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Interest income:				
Loans, including fees	$ 12,540	$ 10,803	$ 37,298	$ 30,015
Securities and other investments:				
Taxable	2,048	1,407	6,265	3,538
Nontaxable	697	816	2,202	2,597
Federal funds sold	2	2	6	7
Time and interest bearing deposits in other banks	13	49	73	170
Other investments	55	43	142	116
Total interest income	15,355	13,120	45,986	36,443
Interest expense:				
Deposits	1,030	1,013	3,189	2,985
Securities sold under agreements to repurchase	197	207	564	602
Junior subordinated debentures	241	242	733	726
Total interest expense	1,468	1,462	4,486	4,313
Net interest income	13,887	11,658	41,500	32,130
Provision for loan losses	300	650	1,550	3,150
Net interest income after provision for loan losses	13,587	11,008	39,950	28,980
Non-interest income:				
Service charges on deposits	1,898	1,781	5,590	5,066
Gain on securities, net	69	-	204	99
ATM and debit card income	1,123	964	3,398	2,797
Other charges and fees	664	653	2,055	1,679
Total non-interest income	3,754	3,398	11,247	9,641
Non-interest expenses:				
Salaries and employee benefits	6,273	5,778	18,511	15,980
Occupancy expense	2,952	2,474	8,283	6,718
FDIC insurance	242	188	695	711
Other	4,163	4,735	12,599	11,726
Total non-interest expenses	13,630	13,175	40,088	35,135
Income before income taxes	3,711	1,231	11,109	3,486
Income tax expense	1,062	131	3,096	292
Net earnings	2,649	1,100	8,013	3,194
Dividends on preferred stock and accretion of warrants	400	804	1,180	1,402

Net earnings available to common shareholders	$	2,249	$	296	$	6,833	$	1,792
Earnings per share:								
Basic	$	0.21	$	0.03	$	0.65	$	0.18
Diluted	$	0.21	$	0.03	$	0.65	$	0.18

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)
(in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net earnings	$2,649	$1,100	$8,013	$3,194
Other comprehensive income, net of tax:				
Unrealized gains on securities available-for-sale:				
Unrealized holding gains arising during the year, net of income tax expense: $496 and $1,068 for the three months ended September 30, 2012 and 2011, respectively; and $954 and $2,191 for the nine months ended September 30, 2012 and 2011, respectively	920	2,073	1,771	4,253
Reclassification adjustment for gains on sales of securities available-for-sale, net of income tax expense: $24 and $0 for the three months ended September 30, 2012 and 2011, respectively; and $71 and $34 for the nine months ended September 30, 2012 and 2011, respectively	(44)	-	(133)	(65)
Total other comprehensive income	876	2,073	1,638	4,188
Total comprehensive income	$3,525	$3,173	$9,651	$7,382

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Nine Months Ended September 30, 2012
(in thousands, except share and per share data)

	Preferred Stock Series B		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount					
Balance - December 31, 2011	32,000	$32,000	10,615,983	$1,062	$98,842	$ 7,752	$(3,286)	$25,467	$161,837
Net earnings	-	-	-	-	-	-	-	8,013	8,013
Dividends on Series B Preferred Stock	-	-	-	-	-	-	-	(1,180)	(1,180)
Dividends on common stock, $0.21 per share	-	-	-	-	-	-	-	(2,198)	(2,198)
Exercise of stock options	-	-	13,571	1	95	-	-	-	96
Stock option and restricted stock compensation expense	-	-	-	-	129	-	-	-	129
Change in accumulated other comprehensive income	-	-	-	-	-	1,638	-	-	1,638
Balance - September 30, 2012	32,000	$32,000	10,629,554	$1,063	$99,066	$ 9,390	$(3,286)	$30,102	$168,335

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	For the Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net earnings	$ 8,013	$ 3,194
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	2,745	2,398
Amortization (accretion) of purchase accounting adjustments	(1,675)	106
Provision for loan losses	1,550	3,150
Provision for deferred tax expense	1,599	(189)
Amortization of premiums on securities, net	1,317	679
Amortization of other investments	11	10
Stock compensation expense	87	14
Restricted stock expense	42	52
Net gain on sale of investment securities	(204)	(99)
Net loss on sale of other real estate owned	168	66
Net write down of other real estate owned	475	434
Net loss on sale of premises and equipment	6	15
Change in accrued interest receivable	45	(447)
Change in accrued interest payable	(312)	(275)
Change in other assets & other liabilities, net	(59)	2,050
Net cash provided by operating activities	13,808	11,158
Cash flows from investing activities, net of effect of purchase acquisitions in 2011:		
Net decrease in time deposits in other banks	1	5,164
Proceeds from maturities and calls of securities available-for-sale	100,502	58,990
Proceeds from maturities and calls of securities held-to-maturity	14,946	900
Proceeds from sale of securities available-for-sale	6,558	3,895
Purchases of securities available-for-sale	(79,195)	(118,517)
Purchases of securities held-to-maturity	(32,816)	(43,403)
Proceeds from redemptions of other investments	500	-
Purchases of other investments	(185)	(5)
Net change in loans	(63,014)	(46,579)
Purchases of premises and equipment	(6,239)	(2,947)
Proceeds from sale of premises and equipment	-	6
Net cash associated with Jefferson Bank acquisition	-	93,800
Proceeds from sale of other real estate owned	550	540
Net cash used in investing activities	(58,392)	(48,156)
Cash flows from financing activities, net of effect of purchase acquisitions in 2011:		
Change in deposits	15,063	22,465
Change in securities sold under agreements to repurchase	9,155	11,252

Issuance of Series B preferred stock	-	32,000
Redemption of Series A preferred stock	-	(20,000)
Proceeds from exercise of stock options	96	-
Payment of dividends on preferred stock	(1,180)	(778)
Payment of dividends on common stock	(2,198)	(2,046)
Net cash provided by financing activities	20,936	42,893
Net (decrease) increase in cash and cash equivalents	(23,648)	5,895
Cash and cash equivalents, beginning of period	83,303	91,907
Cash and cash equivalents, end of period	$ 59,655	$ 97,802
Supplemental information- Noncash items		
Accretion of warrants	$ -	$ 592
Transfer of loans to other real estate	722	7,185
Net change in loan to ESOP	-	(87)
Financed sales of other real estate	290	73
Transfer of investment from available-for-sale to other investments	509	-

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2012
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of MidSouth Bancorp, Inc. (the "Company") and its subsidiaries as of September 30, 2012 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2011 Annual Report on Form 10-K.

The results of operations for the nine month period ended September 30, 2012 are not necessarily indicative of the results to be expected for the entire year.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America and general practices within the banking industry. There have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our 2011 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements — In April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. The amendments in this Update remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this Update. ASU No. 2011-03 was effective for the quarter ended March 31, 2012 and did not have a material impact on the Company's results of operations, financial position or disclosures.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments in this Update to result in a change in the application of the requirements in Topic 820. The Update also reflects the FASB's consideration of the different characteristics of public and non-public entities and the needs of users of their financial statements. Non-public entities will be exempt from a number of the new disclosure requirements. The amendments in this Update are to be applied prospectively. For public entities, the amendments were effective for the quarter ended March 31, 2012 and did not have a material impact on the Company's results of operations, financial position or disclosures.

In July 2012, the FASB issued ASU 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this Update are intended to reduce cost and complexity by providing an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The Update also enhances consistency of impairment testing guidance among long-lived asset categories by permitting entities to assess qualitative factors to determine whether it is necessary to calculate the asset's fair value when testing for impairment, which is equivalent to the impairment testing requirements for other long-lived assets. Under the amendments in this Update, an entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more-likely-than-not that the asset is impaired. The Update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The adoption of ASU 2012-02 will have an effect on how the Company performs its test for impairment of goodwill, but the adoption of this ASU is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

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2. Acquisition Activity

On September 26, 2012, the Company entered into a definitive agreement to acquire PSB Financial Corp. ("PSB"), the holding company of Many, La., based The Peoples State Bank. Under the terms of the agreement, shareholders of PSB will receive $16.0 million in cash, subject to certain adjustments, 756,534 shares of MidSouth common stock and $10.0 million of 4.00% noncumulative convertible preferred stock. In addition, the agreement provides for potential additional cash consideration of up to $2.0 million based on the resolution of certain identified loans over a three-year period after the acquisition. As part of the transaction, PSB's preferred stock issued under the U.S. Treasury's Community Development Capital Initiative will also be redeemed in full. The transaction has been approved by the Board of Directors of each company and is expected to close in the fourth quarter of 2012. Completion of the transaction is subject to customary closing conditions, including the receipt of required regulatory approvals and the approval of PSB shareholders.

3. Investment Securities

The portfolio of investment securities consisted of the following (in thousands):

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government sponsored enterprises	$31,217	$94	$-	$31,311
Obligations of state and political subdivisions	78,301	4,818	-	83,119
GSE mortgage-backed securities	138,129	7,382	-	145,511
Asset-backed securities	12,294	252	-	12,546
Collateralized mortgage obligations: residential	38,081	584	2	38,663
Collateralized mortgage obligations: commercial	28,701	1,319	-	30,020
	$326,723	$14,449	$2	$341,170

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government sponsored enterprises	$94,339	$662	$2	$94,999
Obligations of state and political subdivisions	90,284	5,865	-	96,149
GSE mortgage-backed securities	105,409	4,078	-	109,487
Collateralized mortgage obligations: residential	40,855	618	5	41,468
Collateralized mortgage obligations: commercial	24,609	529	-	25,138
	$355,496	$11,752	$7	$367,241

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	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$2,318	$14	$4	$2,328
GSE mortgage-backed securities	97,856	3,672	-	101,528
Collateralized mortgage obligations: commercial	17,454	659	-	18,113
	$117,628	$4,345	$4	$121,969

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$340	$2	$-	$342
GSE mortgage-backed securities	82,497	550	-	83,047
Collateralized mortgage obligations: commercial	17,635	107	-	17,742
	$100,472	$659	$-	$101,131

With the exception of three private-label collateralized mortgage obligations ("CMOs") with a combined balance remaining of $107,000 at September 30, 2012, all of the Company's CMOs are government-sponsored enterprise ("GSE") securities.

The amortized cost and fair value of debt securities at September 30, 2012 by contractual maturity are shown in the following table (in thousands) with the exception of mortgage-backed securities and CMOs. Expected maturities may differ from contractual maturities for mortgage-backed securities and CMOs because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$ 41,178	$ 41,389
Due after one year through five years	39,462	41,758
Due after five years through ten years	24,117	26,267
Due after ten years	4,761	5,016
Asset-backed securities	12,294	12,546
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	176,210	184,174
Commercial	28,701	30,020
	$ 326,723	$ 341,170

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$ 200	$ 201
Due after one year through five years	608	611
Due after five years through ten years	1,510	1,516
Mortgage-backed securities and collateralized mortgage obligations:		

Residential		97,856		101,528
Commercial		17,454		18,113
	$	117,628	$	121,969

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Details concerning investment securities with unrealized losses are as follows (in thousands):

	September 30, 2012					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
Available-for-sale:	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Collateralized mortgage obligations: residential	$ -	$ -	$ 107	$ 2	$ 107	$ 2

	December 31, 2011					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
Available-for-sale:	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
U.S. Government sponsored enterprises	$ 6,204	$ 2	$ -	$ -	$ 6,204	$ 2
Collateralized mortgage obligations: residential	1,849	1	136	4	1,985	5
	$ 8,053	$ 3	$ 136	$ 4	$ 8,189	$ 7

	September 30, 2012					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
Held-to-maturity:	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Obligations of state and political subdivisions	$ 427	$ 4	$ -	$ -	$ 427	$ 4

Management evaluates each quarter whether unrealized losses on securities represent impairment that is other than temporary. For debt securities, the Company considers its intent to sell the securities or if it is more likely than not the Company will be required to sell the securities. If such impairment is identified, based upon the intent to sell or the more likely than not threshold, the carrying amount of the security is reduced to fair value with a charge to earnings. Upon the result of the aforementioned review, management then reviews for potential other than temporary impairment based upon other qualitative factors. In making this evaluation, management considers changes in market rates relative to those available when the security was acquired, changes in market expectations about the timing of cash flows from securities that can be prepaid, performance of the debt security, and changes in the market's perception of the issuer's financial health and the security's credit quality. If determined that a debt security has incurred other than temporary impairment, then the amount of the credit related impairment is determined. If a credit loss is evident, the amount of the credit loss is charged to earnings and the non-credit related impairment is recognized through other comprehensive income.

The unrealized losses on debt securities at September 30, 2012 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Of the 21 residential collateralized mortgage obligations classified as available-for-sale, 2 contained unrealized losses at September 30, 2012. Management identified no impairment related to credit quality. At September 30, 2012, management had the intent and ability to hold impaired securities and no impairment was evaluated as other than temporary. As a result, no other than temporary impairment losses were recognized during the nine months ended September 30, 2012.

During the nine months ended September 30, 2012, the Company sold six securities classified as available-for-sale at a net gain of $204,000. Of the six securities sold, five securities were sold with gains totaling $235,000 and one security was sold at a loss of $31,000. During the nine months ended September 30, 2011, the Company sold five securities classified as available-for-sale and one security classified as held-to-maturity. Of the available-for-sale securities, four securities were sold with gains totaling $94,000 and one security was sold at a loss of $4,000 for a net gain of $90,000. The decision to sell the one held-to-maturity security, which was sold at a gain of $9,000, was based on the inability to obtain current financial information on the municipality. The sale was consistent with action taken on other securities with a similar deficiency, as identified in an external review performed on the municipal securities portfolio.

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Securities with an aggregate carrying value of approximately $152.3 million and $154.1 million at September 30, 2012 and December 31, 2011, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

4. Other Investments

The Company is required to own stock in the Federal Reserve Bank of Atlanta ("FRB-Atlanta") and as a member of the Federal Home Loan Bank system, owns stock in the Federal Home Loan Bank of Dallas ("FHLB-Dallas"). The Company accounts for FRB-Atlanta and FHLB-Dallas stock as other investments along with stock ownership in two correspondent banks and a Community Reinvestment Act ("CRA") investment in a Senior Housing Crime Prevention program in Louisiana. The CRA investment consisted of three government-sponsored agency mortgage-backed securities purchased by the Company and held by the Senior Housing Crime Prevention program. The majority of the interest earned on the securities provides income to the program.

For impairment analysis, the Company reviews financial statements and regulatory capital ratios for each of the banks in which the Company owns stock to verify financial stability and regulatory compliance with capital requirements. As of September 30, 2012 and December 31, 2011, based upon quarterly reviews, management determined that there was no impairment in the bank stocks held as other investments.

The aggregate carrying amount of other investments consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
FRB-Atlanta	$ 2,255	$ 2,071
FHLB-Dallas	588	586
Other bank stocks	853	853
CRA investment	2,124	2,127
	$ 5,820	$ 5,637

5. Credit Quality of Loans and Allowance for Loan Losses

A summary of the activity in the allowance for loan losses is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 7,222	$ 7,313	$ 7,276	$ 8,813
Provision for loan losses	300	650	1,550	3,150
Recoveries	86	48	247	256
Loans charged-off	(234)	(682)	(1,699)	(4,890)
Balance, end of period	$ 7,374	$ 7,329	$ 7,374	$ 7,329

The Company monitors loan concentrations and evaluates individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity for each major standard industry classification segment. At September 30, 2012, one industry segment concentration, the oil and gas industry, constituted more than 10% of the loan portfolio. The Company's exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately $133.1 million, or 16.5% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At September 30, 2012, loans secured by commercial real estate (including commercial construction and multifamily loans) totaled approximately $336.9 million. Of the $336.9 million, $278.2 million represent CRE loans, 61% of which are secured by owner-occupied commercial properties. Of the $336.9 million in loans secured by commercial real estate, $4.1 million, or 1.2%, were on nonaccrual status at September 30, 2012.

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Modifications by Class of Loans
(in thousands)

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings as of September 30, 2012:			