

BANCORPSOUTH INC  
Form 10-Q  
August 08, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2006**

**OR**

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

**For the transition period from \_\_\_ to \_\_\_**

**Commission File Number: 1-12991**

**BANCORPSOUTH, INC.**

(Exact name of registrant as specified in its charter)

**Mississippi**

(State or other jurisdiction of incorporation or  
organization)

**64-0659571**

(I.R.S. Employer Identification No.)

**One Mississippi Plaza, 201 South Spring Street,  
Tupelo,  
Mississippi**

(Address of principal executive offices)

**38804**

(Zip Code)

Registrant's telephone number, including area code: (662) 680-2000

**NOT APPLICABLE**

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b-2 of the Exchange Act).

Yes  No

As of August 1, 2006, the registrant had outstanding 79,123,185 shares of common stock, par value \$2.50 per share.

**BANCORPSOUTH, INC.**  
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**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Report may not be based on historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as anticipate, believe, estimate, expect, foresee, might, will, intend, could, would or plan, or future or conditional verb tenses, and variations or negatives of such terms. These forward-looking statements include, without limitation, those relating to BancorpSouth's net interest margin, the use of demand deposits and maturing investment securities to fund loan growth, payment of dividends, prepayment of Junior Subordinated Debt Securities, valuation of mortgage servicing rights, revenue, noninterest revenue, key indicators of BancorpSouth's financial performance (such as return on average assets and return on average shareholders' equity), capital resources, BancorpSouth's products and services, liquidity and liquidity strategies, provision for credit losses, allowance for credit losses, future acquisitions, the effect of certain legal claims, the impact of federal and state regulatory requirements for capital, loans affected by Hurricane Katrina, additional share repurchases under BancorpSouth's stock repurchase program and BancorpSouth's future growth and profitability. We caution you not to place undue reliance on the forward-looking statements contained in this report, in that actual results could differ materially from those indicated in such forward-looking statements as a result of a variety of factors. These factors include, but are not limited to, the rate of economic recovery in the areas affected by Hurricane Katrina, the ability of BancorpSouth to increase noninterest revenue and expand noninterest revenue business, the ability of BancorpSouth to fund growth with lower cost liabilities, the ability of BancorpSouth to maintain credit quality, the ability of BancorpSouth to provide and market competitive services and products, the ability of BancorpSouth to diversify revenue, the ability of BancorpSouth to attract, train and retain qualified personnel, the ability of BancorpSouth to operate and integrate new technology, changes in consumer preferences, changes in BancorpSouth's operating or expansion strategy, changes in economic conditions and government fiscal and monetary policies, legislation and court decisions related to the amount of damages recoverable in legal proceedings,

fluctuations in prevailing interest rates and the effectiveness of BancorpSouth's interest rate hedging strategies, the ability of BancorpSouth to balance interest rate, credit, liquidity and capital risks, the ability of BancorpSouth to collect amounts due under loan agreements and attract deposits, laws and regulations affecting financial institutions in general, the ability of BancorpSouth to identify and effectively integrate potential acquisitions, the ability of BancorpSouth to manage its growth and effectively serve an expanding customer and market base, geographic concentrations of BancorpSouth's assets and susceptibility to economic downturns in that area, availability of and costs associated with maintaining and/or obtaining adequate and timely sources of liquidity, the ability of BancorpSouth to compete with other financial services companies, the ability of BancorpSouth to repurchase its common stock on favorable terms, possible adverse rulings, judgments, settlements and other outcomes of pending or threatened litigation, other factors generally understood to affect the financial condition or results of financial services companies and other factors detailed from time to time in BancorpSouth's press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this report.

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**PART I.**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

BANCORPSOUTH, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets

	June 30, 2006 (Unaudited)	December 31, 2005 (1)
	(In thousands)	
<b>ASSETS</b>		
Cash and due from banks	\$ 422,523	\$ 461,659
Interest bearing deposits with other banks	5,982	6,809
Held-to-maturity securities, at amortized cost	1,692,018	1,412,529
Available-for-sale securities, at fair value	1,266,659	1,353,882
Federal funds sold and securities purchased under agreement to resell	104,181	409,531
Loans and leases	7,611,477	7,401,212
Less: Unearned income	44,468	35,657
Allowance for credit losses	96,264	101,500
Net loans	7,470,745	7,264,055
Loans held for sale	51,258	74,271
Premises and equipment, net	278,410	261,172
Accrued interest receivable	83,577	78,730
Goodwill	142,548	138,754
Other assets	314,344	307,282
<b>TOTAL ASSETS</b>	<b>\$ 11,832,245</b>	<b>\$ 11,768,674</b>
<b>LIABILITIES</b>		
Deposits:		
Demand: Noninterest bearing	\$ 1,829,782	\$ 1,798,892
Interest bearing	2,800,391	2,965,057
Savings	758,471	729,279
Other time	4,167,590	4,114,030
Total deposits	9,556,234	9,607,258
Federal funds purchased and securities sold under agreement to repurchase	675,280	748,139
Other short-term borrowings	175,000	2,000
Accrued interest payable	28,668	24,435
Junior subordinated debt securities	144,847	144,847
Long-term debt	136,479	137,228
Other liabilities	106,784	127,601
<b>TOTAL LIABILITIES</b>	<b>10,823,292</b>	<b>10,791,508</b>
<b>SHAREHOLDERS EQUITY</b>		

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Common stock, \$2.50 par value		
Authorized 500,000,000 shares, Issued 79,097,685 and 79,237,345 shares, respectively	197,744	198,093
Capital surplus	112,127	108,961
Accumulated other comprehensive loss	(20,754)	(16,233)
Retained earnings	719,836	686,345
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>1,008,953</b>	<b>977,166</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 11,832,245</b>	<b>\$ 11,768,674</b>

(1) Derived from  
audited financial  
statements.

See accompanying notes to consolidated financial statements.

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**BANCORPSOUTH, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Income**  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(In thousands, except for per share amounts)			
<b>INTEREST REVENUE:</b>				
Loans and leases	\$ 134,569	\$ 109,874	\$ 261,769	\$ 213,678
Deposits with other banks	176	139	317	251
Federal funds sold and securities purchased under agreement to resell	976	197	3,822	589
Held-to-maturity securities:				
Taxable	16,048	9,452	30,371	19,218
Tax-exempt	2,077	1,557	3,964	3,154
Available-for-sale securities:				
Taxable	11,389	12,765	22,293	26,510
Tax-exempt	1,276	1,491	2,639	3,168
Loans held for sale	871	571	2,109	1,589
<b>Total interest revenue</b>	<b>167,382</b>	<b>136,046</b>	<b>327,284</b>	<b>268,157</b>
<b>INTEREST EXPENSE:</b>				
Deposits	57,430	40,432	110,563	78,337
Federal funds purchased and securities sold under agreement to repurchase	6,549	2,590	12,451	4,751
Other	6,182	5,307	11,120	10,223
<b>Total interest expense</b>	<b>70,161</b>	<b>48,329</b>	<b>134,134</b>	<b>93,311</b>
<b>Net interest revenue</b>	<b>97,221</b>	<b>87,717</b>	<b>193,150</b>	<b>174,846</b>
Provision for credit losses	3,586	2,980	(274)	7,767
<b>Net interest revenue, after provision for credit losses</b>	<b>93,635</b>	<b>84,737</b>	<b>193,424</b>	<b>167,079</b>
<b>NONINTEREST REVENUE:</b>				
Mortgage lending	3,720	(2,453)	6,896	3,175
Service charges	17,489	16,411	32,939	31,137
Trust income	2,325	2,004	4,341	3,893
Security gains, net	17	371	27	441
Insurance commissions	16,411	14,425	33,856	30,357
Other	13,638	12,264	28,311	27,938
<b>Total noninterest revenue</b>	<b>53,600</b>	<b>43,022</b>	<b>106,370</b>	<b>96,941</b>

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NONINTEREST EXPENSE:				
Salaries and employee benefits	58,376	52,578	115,949	105,818
Occupancy, net of rental income	7,759	6,841	15,201	13,252
Equipment	5,822	5,637	11,585	11,087
Other	26,387	25,519	51,617	50,106
Total noninterest expense	98,344	90,575	194,352	180,263
Income before income taxes	48,891	37,184	105,442	83,757
Income tax expense	13,392	11,394	32,198	26,223
Net income	\$ 35,499	\$ 25,790	\$ 73,244	\$ 57,534
Earnings per share: Basic	\$ 0.45	\$ 0.33	\$ 0.93	\$ 0.74
Diluted	\$ 0.45	\$ 0.33	\$ 0.92	\$ 0.73
Dividends declared per common share	\$ 0.20	\$ 0.19	\$ 0.39	\$ 0.38

See accompanying notes to consolidated financial statements.

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BANCORPSOUTH, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Unaudited)

	Six months ended June 30,	
	2006	2005
	(In thousands)	
<b>Operating Activities:</b>		
Net income	\$ 73,244	\$ 57,534
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(274)	7,767
Depreciation and amortization	12,282	12,252
Deferred taxes	(3,256)	(2,394)
Amortization of intangibles	2,388	6,945
Amortization of debt securities premium and discount, net	7,005	8,024
Security gains, net	(27)	(441)
Net deferred loan origination expense	(3,612)	(3,654)
(Increase) decrease in interest receivable	(4,847)	1,043
Increase in interest payable	4,233	1,689
Realized gain on student loans sold	(2,477)	(2,561)
Proceeds from student loans sold	92,561	95,703
Origination of student loans held for sale	(54,956)	(53,215)
Realized gain on mortgages sold	(3,128)	(3,476)
Proceeds from mortgages sold	260,648	252,842
Origination of mortgages held for sale	(269,635)	(261,853)
Increase in bank-owned life insurance	(3,045)	(2,991)
Other, net	(14,899)	(13,286)
 Net cash provided by operating activities	 92,205	 99,928
<b>Investing activities:</b>		
Proceeds from calls and maturities of held-to-maturity securities	241,024	150,752
Proceeds from calls and maturities of available-for-sale securities	177,541	159,899
Proceeds from sales of available-for-sale and trading securities	250	38,673
Purchases of held-to-maturity securities	(521,339)	(86,448)
Purchases of available-for-sale securities	(103,476)	(30,900)
Net decrease in short-term investments	305,350	2,845
Net increase in loans and leases	(202,804)	(214,954)
Purchases of premises and equipment	(30,244)	(23,179)
Proceeds from sale of premises and equipment	467	309
Net cash paid for acquisitions	(3,688)	(3,795)
Other, net	2,268	(1,927)
 Net cash used in investing activities	 (134,651)	 (8,725)
<b>Financing activities:</b>		
Net increase in deposits	(51,024)	(84,511)
Net decrease in short-term debt and other liabilities	100,106	77,298

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Repayment of long-term debt	(749)	(3,140)
Issuance of common stock	4,009	3,526
Purchase of common stock	(10,143)	(4,757)
Payment of cash dividends	(39,716)	(40,715)
Net cash provided by (used in) financing activities	2,483	(52,299)
(Decrease) increase in cash and cash equivalents	(39,963)	38,904
Cash and cash equivalents at beginning of period	468,468	322,536
Cash and cash equivalents at end of period	\$ 428,505	\$ 361,440

See accompanying notes to consolidated financial statements.

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**BANCORPSOUTH, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**NOTE 1 BASIS OF FINANCIAL STATEMENT PRESENTATION AND PRINCIPLES OF CONSOLIDATION**

The accompanying unaudited interim consolidated financial statements of BancorpSouth, Inc. (the Company) have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which the Company operates. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included and all such adjustments were of a normal recurring nature. The results of operations for the three-month and six-month periods ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, BancorpSouth Bank (the Bank) and Risk Advantage, Inc., and the Bank's wholly-owned subsidiaries, Century Credit Life Insurance Company, Personal Finance Corporation, BancorpSouth Insurance Services, Inc., BancorpSouth Investment Services, Inc. and BancorpSouth Municipal Development Corporation.

Key employees and directors of the Company and its subsidiaries have been granted stock options under the Company's stock incentive plans. Prior to January 1, 2006, the Company accounted for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, on January 1, 2006. As a result of the adoption of SFAS No. 123R, the Company recognized compensation costs for previously granted unvested awards of approximately \$22,000 during the first six months of 2006. These awards were granted in 2005 with a fair value determined using the Black-Scholes option-pricing model with the following assumptions: ten-year expected option life; 3.40% dividend yield; 21.00% volatility and 3.50% risk-free interest rate. The Company recognized compensation costs for newly granted unvested awards of approximately \$42,000 during the first six months of 2006. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for the three months and six months ended June 30, 2005:

	Three months ended June 30, 2005	Six months ended June 30, 2005
	(In thousands, except per share amounts)	
Net income, as reported	\$ 25,790	\$ 57,534
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(178)	(352)
Pro forma net income	\$ 25,612	\$ 57,182
Basic earnings per share: As reported	\$ 0.33	\$ 0.74
Pro forma	0.33	0.73

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Diluted earnings per share: As reported	\$	0.33	\$	0.73
Pro forma		0.33		0.73

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The composition of the loan and lease portfolio by collateral type as of the dates indicated was as follows:

	June 30,		December 31,
	2006	2005	2005
	(In thousands)		
Commercial and agricultural	\$ 946,720	\$ 847,947	\$ 930,259
Consumer and installment	392,225	389,901	388,610
Real estate mortgage:			
1-4 Family	2,609,658	2,399,084	2,518,224
Other	3,302,585	3,128,906	3,228,445
Lease financing	322,643	274,919	302,311
Other	37,646	36,811	33,363
Total	\$ 7,611,477	\$ 7,077,568	\$ 7,401,212

The following table presents information concerning non-performing loans as of the dates indicated:

	June 30,		December 31,
	2006	2005	2005
	(In thousands)		
Non-accrual loans	\$ 6,391	\$ 10,619	\$ 8,816
Loans 90 days or more past due	15,819	11,010	17,744
Restructured loans	2,181	2,120	2,239
Total non-performing loans	\$ 24,391	\$ 23,749	\$ 28,799

**NOTE 3 ALLOWANCE FOR CREDIT LOSSES**

The following table summarizes the changes in the allowance for credit losses for the periods indicated:

	Six months ended		Year ended
	June 30,		December 31,
	2006	2005	2005
	(In thousands)		
Balance at beginning of period	\$ 101,500	\$ 91,673	\$ 91,673
Provision charged (credited) to expense	(274)	7,767	24,467
Recoveries	1,872	2,829	4,557
Loans and leases charged off	(6,834)	(11,193)	(20,433)
Other, net			1,236
Balance at end of period	\$ 96,264	\$ 91,076	\$ 101,500

**NOTE 4 SECURITIES**

The following table summarizes information pertaining to temporarily impaired held-to-maturity and available-for-sale securities with continuous unrealized loss positions at June 30, 2006:



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	Continuous Unrealized Loss Position				Total	
	Less Than 12 Months		12 Months or Longer			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(In thousands)		
<b>Held-to-maturity securities:</b>						
U.S. Treasury	\$ 9,974	\$ 82	\$	\$	\$ 9,974	\$ 82
U.S. Government agencies	744,218	16,034	661,846	26,990	1,406,064	43,024
Obligations of states and political subdivisions	67,072	1,320	31,166	897	98,238	2,217
Total	\$ 821,264	\$ 17,436	\$ 693,012	\$ 27,887	\$ 1,514,276	\$ 45,323
<b>Available-for-sale securities:</b>						
U.S. Government agencies	\$ 110,959	\$ 2,101	\$ 894,917	\$ 33,400	\$ 1,005,876	\$ 35,501
Obligations of states and political subdivisions	6,285	64	6,602	170	12,887	234