

COLONIAL BANCGROUP INC

Form 10-Q/A

February 14, 2006

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q/A**

**(Amendment No. 1)**

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**x      QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2005**

**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: 1-13508**

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# THE COLONIAL BANCGROUP, INC.

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of

incorporation or organization)

**One Commerce Street**

**Montgomery, Alabama**

(Address of principal executive offices)

**63-0661573**  
(I.R.S. Employer

Identification No.)

**36104**

(Zip Code)

**(334) 240-5000**

(Registrant's telephone number, including area code)

**None**

(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. Large accelerated filer ☒ Accelerated filer ☐ 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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at October 31, 2005</u>
Common Stock, \$2.50 par value per share	154,199,064 shares

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### Explanatory Note

The Colonial BancGroup, Inc. ( BancGroup , Colonial or the Company ) is filing this amendment to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 to amend and restate financial statements and other financial information filed with the Securities and Exchange Commission ( SEC ). This amendment is being filed to correct errors in the originally filed Quarterly Report on Form 10-Q related to the Company's derivative accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS No. 133 ).

In 2005 and prior years, the Company entered into interest rate swap agreements on brokered certificates of deposit (CD swaps) and junior subordinated debt (junior subordinated debt swaps) that were accounted for as fair value hedges under SFAS No. 133. The Company elected a method of fair value hedge accounting, commonly referred to as the abbreviated method of hedge accounting described in paragraph 65 of SFAS No. 133, which allowed the Company to assume no ineffectiveness in these transactions as long as critical terms did not change. The Company recently concluded that the CD swaps and junior subordinated debt swaps did not qualify for these methods in the periods covered by this restatement. In retrospect, the CD swaps did not comply due to the death puts contained in the brokered CDs, which allow the estate of the CD holder to require the bank to redeem the CD in the event of the CD holder's death. In addition, the junior subordinated debt swaps did not comply due to interest deferral features present in the junior subordinated debt. Hedge accounting under SFAS No. 133 is not allowed retrospectively because the hedge documentation required for the long-haul method was not in place at the inception of the hedge. Eliminating the application of fair value hedge accounting reverses the fair value adjustments that have been made to the brokered certificates of deposit and junior subordinated debt and results in all fair value changes for the interest rate swaps being recognized in noninterest income. Additionally, the net cash settlement payments received during each of the affected periods for these interest rate swaps were reclassified from interest expense on brokered certificates of deposit and junior subordinated debt to noninterest income. Adjustments were also made for other non-significant items.

The effect this restatement had on earnings for the affected periods is as follows:

For the Quarter Ended				
		March 31,	June 30,	September 30,
	Total	2005	2005	2005
(In thousands)				
Interest expense	\$ 9,421	\$ 3,684	\$ 2,988	\$ 2,749
Noninterest income	3,430	(2,848)	10,836	(4,558)
Noninterest expense	663	213	235	215
Provision for income taxes	(2,409)	(2,442)	2,756	(2,723)
Net income	\$ (4,245)	\$ (4,303)	\$ 4,857	\$ (4,799)
Diluted earnings per share	\$ (0.03)	\$ (0.03)	\$ 0.03	\$ (0.03)

For the Quarter Ended			
	March 31,	June 30,	September 30,
Total	2004	2004	2004

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	(In thousands)			
Interest expense	\$ 13,274	\$ 4,591	\$ 4,290	\$ 4,393
Noninterest income	12,350	10,955	(10,687)	12,082
Noninterest expense	1,569	499	532	538
Provision for income taxes	(902)	2,123	(5,614)	2,589
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income	\$ (1,591)	\$ 3,742	\$ (9,895)	\$ 4,562
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Diluted earnings per share	\$ (0.01)	\$ 0.03	\$ (0.08)	\$ 0.04

In addition, the following Items have changed: Item 1, Item 2 and Item 4. For additional information on the restatement see Note A, Restatement, in the Notes to the Unaudited Condensed Consolidated Financial Statements.

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**THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES**

**CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS**

**OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:**

**FORWARD-LOOKING STATEMENTS**

This report and the information incorporated by reference include forward-looking statements within the meaning of the federal securities laws. Words such as believes, estimates, plans, expects, should, may, might, outlook, and anticipates, and similar expressions, as they are used in this report, are intended to identify forward-looking statements. The forward-looking statements in these reports are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements. In addition to factors mentioned elsewhere in this report or previously disclosed in BancGroup's SEC reports (accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) or on BancGroup's website at [www.colonialbank.com](http://www.colonialbank.com)), the following factors, among others, could cause actual results to differ materially from forward-looking statements and future results could differ materially from historical performance. These factors are not exclusive:

deposit attrition, customer loss, or revenue loss in the ordinary course of business;

increases in competitive pressure in the banking industry;

costs or difficulties related to the integration of the businesses of BancGroup and institutions it acquires are greater than expected;

the inability of BancGroup to realize elements of its strategic plans for 2005 and beyond;

changes in the interest rate environment which expand or reduce margins or adversely affect critical estimates as applied and projected returns on investments;

economic conditions affecting real estate values and transactions in BancGroup's market and/or general economic conditions, either nationally or regionally, that are less favorable than expected;

natural disasters in BancGroup's primary market areas result in prolonged business disruption or materially impair the value of collateral securing loans;

management's assumptions and estimates underlying critical accounting policies prove to be inadequate or materially incorrect or are not borne out by subsequent events;

changes which may occur in the regulatory environment;

a significant rate of inflation (deflation);

acts of terrorism or war; and

changes in the securities markets.

Many of these factors are beyond BancGroup's control. The reader is cautioned not to place undue reliance on any forward looking statements made by or on behalf of BancGroup. Any such statement speaks only as of the date the statement was made or as of such date that may be referenced within the statement. BancGroup does not undertake any obligation to update or revise any forward-looking statements.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CONDITION****(Unaudited)**

	September 30,	December 31,
	2005	2004
	(Restated)	(Restated)
	(In thousands)	
ASSETS		
Cash and due from banks	\$ 425,121	\$ 296,889
Interest bearing deposits in banks	2,683	3,828
Federal funds sold	107,725	82,160
Securities purchased under agreements to resell	607,408	221,491
Securities available for sale	2,966,915	3,647,402
Investment securities (market value: 2005, \$3,283; 2004, \$6,503)	3,083	6,152
Loans held for sale	799,970	678,496
Total loans, net of unearned income:		
Mortgage warehouse loans	526,967	1,114,923
All other loans	14,196,682	11,742,888
Less:		
Allowance for loan losses	(168,324)	(148,802)
Loans, net	14,555,325	12,709,009
Premises and equipment, net	304,894	270,236
Goodwill	660,758	352,536
Other intangibles, net	62,667	41,604
Other real estate owned	5,747	9,865
Bank-owned life insurance	342,380	315,739
Accrued interest and other assets	272,104	261,203
Total	\$ 21,116,780	\$ 18,896,610
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing transaction accounts	\$ 3,166,273	\$ 2,468,529
Interest bearing transaction accounts	5,782,269	5,077,509
Total transaction accounts	8,948,542	7,546,038
Time	6,321,283	4,317,657
Total deposits	15,269,825	11,863,695



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Short-term borrowings	1,659,174	3,258,935
Subordinated debt	266,091	273,598
Junior subordinated debt	307,477	302,412
Other long-term debt	1,612,904	1,684,947
Accrued expenses and other liabilities	98,454	114,732
	<hr/>	<hr/>
Total liabilities	19,213,925	17,498,319
Contingencies and commitments (Notes C and I)		
Preferred stock, \$2.50 par value; 50,000,000 shares authorized and none issued at September 30, 2005; none authorized at December 31, 2004		
Preference stock, \$2.50 par value; 1,000,000 shares authorized and none issued at September 30, 2005 and December 31, 2004, respectively		
Common stock, \$2.50 par value; 400,000,000 and 200,000,000 shares authorized, 155,550,888 and 133,823,776 shares issued and 154,190,961 and 133,823,776 outstanding at September 30, 2005 and December 31, 2004, respectively		
	388,877	334,559
Additional paid in capital	758,909	343,694
Retained earnings	830,523	729,715
Treasury stock, at cost (1,359,927 shares at September 30, 2005 and none at December 31, 2004)	(31,510)	
Unearned compensation	(7,211)	(449)
Accumulated other comprehensive loss, net of taxes	(36,733)	(9,228)
	<hr/>	<hr/>
Total shareholders' equity	1,902,855	1,398,291
	<hr/>	<hr/>
Total	\$ 21,116,780	\$ 18,896,610
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See Notes to the Unaudited Condensed Consolidated Financial Statements

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## THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
	(Restated)	(Restated)	(Restated)	(Restated)
(In thousands, except per share amounts)				
<b>Interest Income:</b>				
Interest and fees on loans	\$ 701,947	\$ 500,068	\$ 263,343	\$ 175,699
Interest and dividends on securities	120,770	112,506	34,340	39,406
Interest on federal funds sold and other short-term investments	18,397	1,297	10,455	806
Total interest income	841,114	613,871	308,138	215,911
<b>Interest Expense:</b>				
Interest on deposits	183,020	106,562	76,968	37,904
Interest on short-term borrowings	60,803	23,915	22,359	9,780
Interest on long-term debt	74,632	70,091	23,545	22,785
Total interest expense	318,455	200,568	122,872	70,469
<b>Net Interest Income</b>	<b>522,659</b>	<b>413,303</b>	<b>185,266</b>	<b>145,442</b>
Provision for loan losses	20,946	21,606	6,007	7,153