

BANCORPSOUTH INC
Form 10-Q/A
March 01, 2007

Table of Contents

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

**FORM 10-Q/A
(Amendment No. 1)**

(Mark One)

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

For the quarterly period ended September 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 12b-2 of the Exchange Act). Yes No

As of November 1, 2006, the registrant had outstanding 79,121,573 shares of common stock, par value \$2.50 per share.

Table of Contents

EXPLANATORY NOTE

BancorpSouth, Inc. (the Company) is filing this Amendment No. 1 on Form 10-Q/A (this Amendment) to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which was originally filed with the Securities and Exchange Commission (the SEC) on November 8, 2006 (the Original Filing), to amend and restate the Company's consolidated financial statements (the Restatement) for the three and nine months ended September 30, 2006. The Company is amending and restating its consolidated financial statements to record income tax expense adjustments related to the quarterly period ended September 30, 2006.

For the convenience of the reader, this Amendment sets forth the Original Filing in its entirety. However, this Amendment amends and restates Items 1, 2 and 4 of Part I, in each case as a result of, and to reflect, the Restatement and related matters. For a description of the Restatement, see Note 2 Restatement of Financial Statements to the accompanying interim consolidated financial statements contained in this Amendment. In addition, Exhibits 31.1, 31.2, 32.1 and 32.2 of the Original Filing have been amended to contain currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer. No other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Original Filing or to modify or update those disclosures affected by subsequent events. Except for the amended information related to the Restatement, the information in this Amendment is as of the date of the Original Filing and the Company has not updated the disclosure contained herein to reflect events that occurred as of a later date. Forward-looking statements in this Amendment have also not been updated from the Original Filing. Other events occurring after September 30, 2006 or other disclosures necessary to reflect subsequent events will be addressed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, which will be filed after the date of this Amendment, and any reports filed with the SEC subsequent to the date of this filing.

**BANCORPSOUTH, INC.
CONTENTS**

	Page
<u>PART I. Financial Information</u>	
<u>ITEM 1. Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited)</u>	
<u>September 30, 2006 (as restated) and December 31, 2005</u>	4
<u>Consolidated Statements of Income (Unaudited)</u>	
<u>Three Months and Nine Months Ended</u>	
<u>September 30, 2006 (as restated) and 2005</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	
<u>Nine Months Ended September 30, 2006 (as restated) and 2005</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>ITEM 4. Controls and Procedures</u>	34
 <u>PART II. Other Information</u>	
<u>ITEM</u>	
<u>1A. Risk Factors</u>	35
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>ITEM 6. Exhibits</u>	35
<u>EX-31.1 SECTION 302 CERTIFICATION OF THE CEO</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION OF THE CFO</u>	
<u>EX-32.1 SECTION 906 CERTIFICATION OF THE CEO</u>	
<u>EX-32.2 SECTION 906 CERTIFICATION OF THE CFO</u>	

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, net interest revenue, the impact of interest rate volatility on interest earning assets and interest bearing liabilities, 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, operating results, noninterest revenue, deposits, 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 needs and strategies, provision for credit losses, allowance for credit losses, future acquisitions to further BancorpSouth's business strategies, the effect of certain legal claims, the impact of federal and state regulatory requirements for capital, assessment of credit losses for loans to customers in the region affected by Hurricane Katrina, additional share repurchases under BancorpSouth's stock repurchase program, diversification of BancorpSouth's revenue stream, the impact of recent accounting pronouncements 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.

Table of Contents

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30, 2006 (Unaudited) (as restated)	December 31, 2005 (1)
	(In thousands)	
ASSETS		
Cash and due from banks	\$ 377,005	\$ 461,659
Interest bearing deposits with other banks	7,231	6,809
Held-to-maturity securities, at amortized cost	1,684,483	1,412,529
Available-for-sale securities, at fair value	1,184,976	1,353,882
Federal funds sold and securities purchased under agreement to resell	20,851	409,531
Loans and leases	7,819,408	7,401,212
Less: Unearned income	45,726	35,657
Allowance for credit losses	97,391	101,500
Net loans	7,676,291	7,264,055
Loans held for sale	76,590	74,271
Premises and equipment, net	281,349	261,172
Accrued interest receivable	92,099	78,730
Goodwill	143,700	138,754
Other assets	326,189	307,282
TOTAL ASSETS	\$ 11,870,764	\$ 11,768,674
LIABILITIES		
Deposits:		
Demand: Noninterest bearing	\$ 1,753,566	\$ 1,798,892
Interest bearing	2,775,033	2,965,057
Savings	728,168	729,279
Other time	4,235,607	4,114,030
Total deposits	9,492,374	9,607,258
Federal funds purchased and securities sold under agreement to repurchase	715,108	748,139
Other short-term borrowings	200,000	2,000
Accrued interest payable	37,349	24,435
Junior subordinated debt securities	144,847	144,847
Long-term debt	136,096	137,228
Other liabilities	120,381	127,601
TOTAL LIABILITIES	10,846,155	10,791,508

SHAREHOLDERS EQUITY

Common stock, \$2.50 par value		
Authorized 500,000,000 shares, Issued 79,131,256 and 79,237,345 shares, respectively	197,828	198,093
Capital surplus	112,644	108,961
Accumulated other comprehensive loss	(13,879)	(16,233)
Retained earnings	728,016	686,345
TOTAL SHAREHOLDERS EQUITY	1,024,609	977,166
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 11,870,764	\$ 11,768,674

(1) Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(as restated)		(as restated)	
	(In thousands, except for per share amounts)			
INTEREST REVENUE:				
Loans and leases	\$ 143,712	\$ 115,800	\$ 405,481	\$ 329,479
Deposits with other banks	295	166	612	417
Federal funds sold and securities purchased under agreement to resell	609	1,061	4,431	1,649
Held-to-maturity securities:				
Taxable	16,107	9,160	46,478	28,377
Tax-exempt	2,017	1,667	5,981	4,822
Available-for-sale securities:				
Taxable	10,405	11,761	32,698	38,271
Tax-exempt	1,215	1,481	3,854	4,649
Loans held for sale	878	686	2,987	2,275
 Total interest revenue	 175,238	 141,782	 502,522	 409,939
 INTEREST EXPENSE:				
Deposits	62,964	44,790	173,527	123,127
Federal funds purchased and securities sold under agreement to repurchase	8,498	3,692	20,949	8,443
Other	7,378	4,859	18,498	15,081
 Total interest expense	 78,840	 53,341	 212,974	 146,651
 Net interest revenue	 96,398	 88,441	 289,548	 263,288
Provision for credit losses	2,526	14,725	2,252	22,492
 Net interest revenue, after provision for credit losses	 93,872	 73,716	 287,296	 240,796
 NONINTEREST REVENUE:				
Mortgage lending	41	4,207	6,937	7,382
Service charges	17,354	15,860	50,293	46,997
Trust income	2,344	2,161	6,685	6,054
Security gains, net	9	20	36	461
Insurance commissions	17,556	14,830	51,412	45,187
Other	11,930	11,085	40,241	39,024
 Total noninterest revenue	 49,234	 48,163	 155,604	 145,105

NONINTEREST EXPENSE:

Salaries and employee benefits	58,453	52,173	174,402	157,992
Occupancy, net of rental income	8,598	6,751	23,799	20,004
Equipment	5,896	5,501	17,481	16,588
Other	25,714	25,088	77,331	75,193
Total noninterest expense	98,661	89,513	293,013	269,777
Income before income taxes	44,445	32,366	149,887	116,124
Income tax expense	20,568	9,507	52,766	35,730
Net income	\$ 23,877	\$ 22,859	\$ 97,121	\$ 80,394
Earnings per share: Basic	\$ 0.30	\$ 0.29	\$ 1.23	\$ 1.03
Diluted	\$ 0.30	\$ 0.29	\$ 1.22	\$ 1.02
Dividends declared per common share	\$ 0.20	\$ 0.19	\$ 0.59	\$ 0.57

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Nine months ended September 30, 2006 2005 (as restated) (In thousands)	
Operating Activities:		
Net income	\$ 97,121	\$ 80,394
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,252	22,492
Depreciation and amortization	18,910	18,396
Deferred taxes	863	(3,093)
Amortization of intangibles	3,549	10,336
Amortization of debt securities premium and discount, net	10,471	11,933
Security gains, net	(36)	(463)
Net deferred loan origination expense	(5,451)	(5,501)
Excess tax benefit from exercise of stock options	(1,154)	
Increase in interest receivable	(13,369)	(4,575)
Increase in interest payable	12,914	7,882
Realized gain on student loans sold	(2,806)	(2,966)
Proceeds from student loans sold	104,850	110,837
Origination of student loans held for sale	(92,778)	(97,121)
Realized gain on mortgages sold	(3,517)	(5,277)
Proceeds from mortgages sold	417,520	422,530
Origination of mortgages held for sale	(425,588)	(421,748)
Increase in bank-owned life insurance	(4,600)	(4,586)
Other, net	(32,072)	2,400
 Net cash provided by operating activities	 87,079	 141,870
Investing activities:		
Proceeds from calls and maturities of held-to-maturity securities	294,342	204,162
Proceeds from calls and maturities of available-for-sale securities	273,679	239,847
Proceeds from sales of available-for-sale and trading securities	250	36,804
Purchases of held-to-maturity securities	(567,645)	(189,245)
Purchases of available-for-sale securities	(109,568)	(42,938)
Net decrease (increase) in short-term investments	388,680	(166,772)
Net increase in loans and leases	(409,037)	(261,962)
Purchases of premises and equipment	(40,128)	(30,406)
Proceeds from sale of premises and equipment	1,445	474
Net cash paid for acquisitions	(4,840)	(4,376)
Other, net	3,011	192
 Net cash used in investing activities	 (169,811)	 (214,220)
Financing activities:		

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Net (decrease) increase in deposits	(114,884)	162,176
Net increase in short-term debt and other liabilities	164,893	30,431
Repayment of long-term debt	(1,132)	(3,500)
Issuance of common stock	4,740	4,423
Purchase of common stock	(10,143)	(7,103)
Excess tax benefit from exercise of stock options	1,154	
Payment of cash dividends	(46,128)	(50,779)
Net cash (used in) provided by financing activities	(1,500)	135,648
(Decrease) increase in cash and cash equivalents	(84,232)	63,298
Cash and cash equivalents at beginning of period	468,468	322,536
Cash and cash equivalents at end of period	\$ 384,236	\$ 385,834

See accompanying notes to consolidated financial statements.

Table of Contents

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 nine-month periods ended September 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 \$24,000 during the first nine 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 \$105,000 during the first nine 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 nine months ended September 30, 2005:

	Three months ended September 30, 2005	Nine months ended September 30, 2005
	(In thousands, except per share amounts)	
Net income, as reported	\$ 22,859	\$ 80,394
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(180)	(532)
Pro forma net income	\$ 22,679	\$ 79,862
Basic earnings per share: As reported	\$ 0.29	\$ 1.03
Pro forma	0.29	1.02
Diluted earnings per share: As reported	\$ 0.29	\$ 1.02

Pro forma

7

0.29

1.02

Table of Contents

NOTE 2 RESTATEMENT OF FINANCIAL STATEMENTS

As part of the Company's year-end financial review during January 2007, the Company determined that it had overpaid income taxes in prior years. The Company determined that it could recover approximately \$10.82 million of the overpayment by amending tax returns filed in the last three years. However, approximately \$6.75 million of the overpayment was not recoverable due to statutory limitations preventing the Company from amending tax returns for certain prior years. The statute of limitations relating to the amendment of certain prior year tax returns lapsed during the third quarter of 2006. The Company concluded that there was a material error in its income tax expense for the three months and nine months ended September 30, 2006, resulting in the restatement of the Company's financial statements for the quarter ended September 30, 2006. The effect of the adjustments on the Company's interim financial statements for the three months and nine months ended September 30, 2006 was an increase to income taxes payable of approximately \$17.57 million, an increase in other assets to record a \$10.82 million income tax receivable and an increase in income tax expense of \$6.75 million, which resulted in a decrease in net income after taxes of \$6.75 million.

The following tables summarize the effect of the restatement adjustments on the financial statements as of and for the three and nine months ended September 30, 2006:

Table of Contents

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)

	September 30, 2006 (as reported)	Adjustments	September 30, 2006 (as restated)
ASSETS			
Cash and due from banks	\$ 377,005	\$	\$ 377,005
Interest bearing deposits with other banks	7,231		7,231
Held-to-maturity securities, at amortized cost	1,684,483		1,684,483
Available-for-sale securities, at fair value	1,184,976		1,184,976
Federal funds sold and securities purchased under agreement to resell	20,851		20,851
Loans and leases	7,819,408		7,819,408
Less: Unearned income	45,726		45,726
Allowance for credit losses	97,391		97,391
Net loans	7,676,291		7,676,291
Loans held for sale	76,590		76,590
Premises and equipment, net	281,349		281,349
Accrued interest receivable	92,099		92,099
Goodwill	143,700		143,700
Other assets	315,367	10,822	326,189
TOTAL ASSETS	\$ 11,859,942	\$ 10,822	\$ 11,870,764
LIABILITIES			
Deposits:			
Demand: Noninterest bearing	\$ 1,753,566	\$	\$ 1,753,566
Interest bearing	2,775,033		2,775,033
Savings	728,168		728,168
Other time	4,235,607		4,235,607
Total deposits	9,492,374		9,492,374
Federal funds purchased and securities sold under agreement to repurchase	715,108		715,108
Other short-term borrowings	200,000		200,000
Accrued interest payable	37,349		37,349
Junior subordinated debt securities	144,847		144,847
Long-term debt	136,096		136,096
Other liabilities	102,809	17,572	120,381
TOTAL LIABILITIES	10,828,583	17,572	10,846,155
SHAREHOLDERS EQUITY			

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Common stock, \$2.50 par value		
Authorized - 500,000,000 shares, Issued - 79,131,256 and 79,237,345 shares, respectively	197,828	197,828
Capital surplus	112,644	112,644
Accumulated other comprehensive loss	(13,879)	