

BANCORPSOUTH INC
Form 10-Q
November 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 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.

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, 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)	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	315,367	307,282
TOTAL ASSETS	\$ 11,859,942	\$ 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	102,809	127,601
TOTAL LIABILITIES	10,828,583	10,791,508
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	198,093
Capital surplus	112,644	108,961
Accumulated other comprehensive loss	(13,879)	(16,233)
Retained earnings	734,766	686,345
TOTAL SHAREHOLDERS EQUITY	1,031,359	977,166
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 11,859,942	\$ 11,768,674

(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 September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(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

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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	13,818	9,507	46,016	35,730
Net income	\$ 30,627	\$ 22,859	\$ 103,871	\$ 80,394
Earnings per share: Basic	\$ 0.39	\$ 0.29	\$ 1.31	\$ 1.03
Diluted	\$ 0.38	\$ 0.29	\$ 1.31	\$ 1.02
Dividends declared per common share	\$ 0.20	\$ 0.19	\$ 0.59	\$ 0.57

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2006	2005
	(In thousands)	
Operating Activities:		
Net income	\$ 103,871	\$ 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	(38,822)	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:		
Net (decrease) increase in deposits	(114,884)	162,176

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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.

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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 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

0.29

1.02

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

	September 30,		December
	2006	2005	31,
	(In thousands)		2005
Commercial and agricultural	\$ 986,207	\$ 861,700	\$ 930,259
Consumer and installment	385,856	388,347	388,610
Real estate mortgage:			
1-4 Family	2,639,803	2,444,111	2,518,224
Other	3,452,339	3,110,961	3,228,445
Lease financing	310,989	282,643	302,311
Other	44,214	34,450	33,363
Total	\$ 7,819,408	\$ 7,122,212	\$ 7,401,212

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

	September 30,		December
	2006	2005	31,
	(In thousands)		2005
Non-accrual loans	\$ 6,289	\$ 8,103	\$ 8,816
Loans 90 days or more past due	16,859	13,539	17,744
Restructured loans	1,952	2,240	2,239
Total non-performing loans	\$ 25,100	\$ 23,882	\$ 28,799

NOTE 3 ALLOWANCE FOR CREDIT LOSSES

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

	Nine months ended		Year ended
	September 30,		December
	2006	2005	31,
	(In thousands)		2005
Balance at beginning of period	\$ 101,500	\$ 91,673	\$ 91,673
Provision charged to expense	2,252	22,492	24,467
Recoveries	3,927	3,652	4,557
Loans and leases charged off	(10,288)	(16,750)	(20,433)
Other, net			1,236
Balance at end of period	\$ 97,391	\$ 101,067	\$ 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 September 30, 2006:

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	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Held-to-maturity securities:						
U.S. Treasury	\$ 4,956	\$ 11	\$ 5,048	\$ 33	\$ 10,004	\$ 44
U.S. Government agencies	537,027	4,106	726,998	21,271	1,264,025	25,377
Obligations of states and political subdivisions	38,787	349	38,779	730	77,566	1,079
Total	\$ 580,770	\$ 4,466	\$ 770,825	\$ 22,034	\$ 1,351,595	\$ 26,500
Available-for-sale securities:						
U.S. Government agencies	\$ 101,150	\$ 680	\$ 852,874	\$ 23,940	\$ 954,024	\$ 24,620
Obligations of states and political subdivisions	2,440	14	7,346	141	9,786	155
Other	19	1	7,963	37	7,982	38
Total	\$ 103,609	\$ 695	\$ 868,183	\$ 24,118	\$ 971,792	\$ 24,813

Based upon review of the sector credit ratings of these securities, the ability to hold the securities until the impairment has been recovered and the volatility of their market price, the impairments related to these securities were determined to be temporary.

NOTE 5 PER SHARE DATA

The computation of basic earnings per share (EPS) is based on the weighted average number of common shares outstanding. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding plus the shares resulting from the assumed exercise of all outstanding share-based awards using the treasury stock method.

The following tables provide a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods shown:

	Three months ended September 30,					
	2006			2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share amounts)					
Basic EPS						
Income available to common shareholders	\$ 30,627	79,104	\$ 0.39	\$ 22,859	78,224	\$ 0.29
Effect of dilutive share-based awards		473			346	

Diluted EPS

Income available to
common shareholders
plus assumed exercise of
all outstanding
share-based awards

\$ 30,627	79,577	\$ 0.38	\$ 22,859	78,570	\$ 0.29
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	Nine months ended September 30,					
	2006			2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share amounts)					
Basic EPS						
Income available to common shareholders	\$ 103,871	79,154	\$ 1.31	\$ 80,394	78,216	\$ 1.03
Effect of dilutive stock options		398			344	
Diluted EPS						
Income available to common shareholders plus assumed exercise	\$ 103,871	79,552	\$ 1.31	\$ 80,394	78,560	\$ 1.02

NOTE 6 COMPREHENSIVE INCOME

The following tables present the components of other comprehensive income and the related tax effects allocated to each component for the periods indicated:

	Three months ended September 30,					
	2006			2005		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
	(In thousands)					
Unrealized gains on available-for-sale securities:						
Unrealized (losses) gains arising during holding period	\$ 11,137	\$ (4,261)	\$ 6,876	\$ (4,364)	\$ 1,671	\$ (2,693)
Less: Reclassification adjustment for net (gains) losses realized in net income	(2)	1	(1)	(20)	7	(13)
Other comprehensive income (loss)	\$ 11,135	\$ (4,260)	\$ 6,875	\$ (4,384)	\$ 1,678	\$ (2,706)
Net income			30,627			22,859
Comprehensive income			\$ 37,502			\$ 20,153

Nine months ended September 30,
2006 2005

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	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
	(In thousands)					
Unrealized gains on available-for-sale securities: Unrealized (losses) gains arising during holding period	\$ 3,822	\$ (1,460)	\$ 2,362	\$ (15,068)	\$ 5,771	\$ (9,297)
Less: Reclassification adjustment for net (gains) losses realized in net income	(13)	5	(8)	(346)	132	(214)
Other comprehensive income (loss)	\$ 3,809	\$ (1,455)	\$ 2,354	\$ (15,414)	\$ 5,903	\$ (9,511)
Net income			103,871			80,394
Comprehensive income			\$ 106,225			\$ 70,883

NOTE 7 JUNIOR SUBORDINATED DEBT SECURITIES

In 2002, the Company issued \$128,866,000 in 8.15% Junior Subordinated Debt Securities to BancorpSouth Capital Trust I (the Trust), a business trust. The Trust used the proceeds from the issuance of five million shares of

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8.15% trust preferred securities, \$25 face value per share, to acquire the 8.15% Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on January 28, 2032 and are callable at the option of the Company after January 28, 2007.

Pursuant to the merger with Business Holding Corporation (BHC) on December 31, 2004, the Company assumed the liability for \$6,186,000 in Junior Subordinated Debt Securities issued to Business Holding Company Trust I, a statutory trust. Business Holding Company Trust I used the proceeds from the issuance of 6,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on April 7, 2034, and are callable at the option of the Company, in whole or in part, on any January 7, April 7, July 7, or October 7 on or after April 7, 2009. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.80% from January 30, 2004 to April 7, 2009 and thereafter at LIBOR plus 2.85%.

Pursuant to the merger with Premier Bancorp, Inc. (Premier) on December 31, 2004, the Company assumed the liability for \$3,093,000 in Junior Subordinated Debt Securities issued to Premier Bancorp Capital Trust I, a statutory trust. Premier Bancorp Capital Trust I used the proceeds from the issuance of 3,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on November 7, 2032, and are callable at the option of the Company, in whole or in part, on any February 7, May 7, August 7 or November 7 on or after November 7, 2007. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month LIBOR plus 3.45%.

Pursuant to the merger with American State Bank Corporation (ASB) on December 1, 2005, the Company assumed the liability for \$6,702,000 in Junior Subordinated Debt Securities issued to American State Capital Trust I, a statutory trust. American State Capital Trust I used the proceeds from the issuance of 6,500 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on April 7, 2034, and are callable at the option of the Company, in whole or in part, on July 7, October 7, January 7 or April 7 on or after April 7, 2009. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month LIBOR plus 2.80%.

NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by operating segment for the nine months ended September 30, 2006 were as follows:

	Community Banking	General Corporate and Other (In thousands)	Total
Balance as of December 31, 2005	\$ 103,462	\$ 35,292	\$ 138,754
Goodwill acquired during the period	1,152	3,343	4,495
Purchase accounting adjustments	451		451
Balance as of September 30, 2006	\$ 105,065	\$ 38,635	\$ 143,700

The following tables present information regarding the components of the Company's identifiable intangible assets for the dates and periods indicated:

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	As of September 30, 2006		As of December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Amortized intangible assets:				
Core deposit intangibles	\$ 20,699	\$ 11,151	\$ 20,699	\$ 9,455
Customer relationship intangibles	23,164	9,866	22,890	8,051
Non-solicitation intangibles	65	55	52	35
Total	\$ 43,928	\$ 21,072	\$ 43,641	\$ 17,541
Unamortized intangible assets:				
Trade names	\$ 688	\$	\$ 688	\$
Pension plan intangibles	1,057		1,057	
Total	\$ 1,745	\$	\$ 1,745	\$

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	(In thousands)			
Aggregate amortization expense for:				
Core deposit intangibles	\$ 557	\$ 602	\$ 1,696	\$ 1,819
Customer relationship intangibles	571	643	1,815	2,033
Non-solicitation intangibles	4	6	20	19
Total	\$ 1,132	\$ 1,251	\$ 3,531	\$ 3,871

The following table presents information regarding estimated amortization expense on the Company's amortizable identifiable intangible assets for the year ended December 31, 2006, and the succeeding four years:

	Core	Customer	Non-	Total
	Deposit Intangibles	Relationship Intangibles	Solicitation Intangibles	
	(In thousands)			
Estimated Amortization Expense:				
For year ended December 31, 2006	\$2,240	\$ 2,361	\$ 22	\$4,623
For year ended December 31, 2007	2,015	2,047	7	4,069
For year ended December 31, 2008	1,735	1,811		3,546
For year ended December 31, 2009	1,546	1,554		3,100
For year ended December 31, 2010	1,207	1,360		2,567

NOTE 9 PENSION AND OTHER POSTRETIREMENT BENEFITS

The following tables present the components of net periodic benefit costs for the periods indicated:

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	Pension Benefits		Other Benefits	
	Three months ended		Three months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	(In thousands)			
Service cost	\$ 1,743	\$ 1,820	\$	\$ 1
Interest cost	1,328	1,360	8	37
Expected return on assets	(1,500)	(1,262)		
Amortization of unrecognized transition amount	5	4		
Recognized prior service cost	60	63	166	198
Recognized net (gain) loss	412	516	(7)	
Net periodic benefit costs	\$ 2,048	\$ 2,501	\$ 167	\$ 236

	Pension Benefits		Other Benefits	
	Nine months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	(In thousands)			
Service cost	\$ 5,229	\$ 4,608	\$	\$ 3
Interest cost	3,984	3,680	24	111
Expected return on assets	(4,500)	(4,088)		
Amortization of unrecognized transition amount	15	14		
Recognized prior service cost	180	187	498	594
Recognized net (gain) loss	1,236	946	(21)	
Net periodic benefit costs	\$ 6,144	\$ 5,347	\$ 501	\$ 708

NOTE 10 RECENT PRONOUNCEMENTS

In March 2006, SFAS No. 156, Accounting for Servicing of Financial Assets, was issued. SFAS No. 156 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as it relates to the accounting for separately recognized servicing assets and servicing liabilities by requiring that all separately recognized servicing assets and servicing liabilities be initially measured by fair value, if practicable. SFAS No. 156 also permits the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. SFAS No. 156 was adopted by the Company effective January 1, 2006 with the Company electing to measure its servicing rights at fair value at each reporting date. The adoption of SFAS No. 156 has had no material impact on the Company's financial statements.

In June 2006, Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48),

Accounting for Uncertainty in Income Taxes—an interpretation of SFAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109,

Accounting for Income Taxes, and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that the adoption of FIN 48 will have on the financial position and results of operations of the Company.

In February 2006, SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140, was issued. SFAS No. 155 permits fair value remeasurement for any hybrid financial

instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations

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of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is expected to have no material impact on the financial position or results of operations of the Company.

In September 2006, SFAS No. 157, Fair Value Measurements, was issued. SFAS No. 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS No. 157 is expected to have no material impact on the financial position or results of operations of the Company.

In September 2006, SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of SFAS No. 87, 88, 106, and 132R, was issued. SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. SFAS No. 158 recognition and disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. SFAS No. 158 measurement requirements are effective for fiscal years ending after December 15, 2008. Based on the preliminary funding status as of September 30, 2006, the adoption of SFAS No. 158 is expected to have no material impact on the financial position, results of operations or regulatory requirements for capital of the Company.

In September 2006, Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, was issued. SAB 108 provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 requires registrants to quantify errors using both a balance sheet and an income statement approach and to evaluate whether either approach results in quantifying a misstatement material in light of relevant quantitative and qualitative factors. SAB 108 must be applied to annual financial statements for the first fiscal year ending after November 15, 2006. The application of SAB 108 is expected to have no material impact on the financial position or results of operations of the Company.

In September, 2006, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 06-4 (EITF 06-4), Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements . EITF 06-4 requires employers to recognize a liability for future benefits provided through endorsement split-dollar life insurance arrangements that extend into postretirement periods in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions or APB Opinion No. 12, Omnibus Opinion 1967. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. Entities should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Company is currently evaluating the impact that the adoption of EITF 06-4 will have on the financial position of the Company.

NOTE 11 BUSINESS COMBINATIONS

On December 1, 2005, ASB, a financial holding company with approximately \$358 million in assets headquartered in Jonesboro, Arkansas, merged with and into the Company. Pursuant to the merger, ASB's subsidiary, American State Bank, merged with and into the Bank. Consideration paid to complete this transaction consisted of 1,127,544 shares of the Company's common stock in addition to cash paid to the ASB shareholders in the aggregate amount of \$25,001,242. This transaction was accounted for as a purchase. This acquisition was not material to the financial position or results of operations of the Company.

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The Company's principal activity is community banking, which includes providing a full range of deposit products, commercial loans and consumer loans. The general corporate and other operating segment includes leasing, mortgage lending, trust services, credit card activities, insurance services, investment services and other activities not allocated to community banking.

Results of operations and selected financial information by operating segment for the three-month and nine-month periods ended September 30, 2006 and 2005 were as follows:

	Community Banking	General Corporate and Other (In thousands)	Total
Three months ended September 30, 2006:			
Results of Operations			
Net interest revenue	\$ 86,620	\$ 9,778	\$ 96,398
Provision for credit losses	2,460	66	2,526
Net interest revenue after provision for credit losses	84,160	9,712	93,872
Noninterest revenue	25,905	23,329	49,234
Noninterest expense	67,718	30,943	98,661
Income before income taxes	42,347	2,098	44,445
Income taxes	13,166	652	13,818
Net income	\$ 29,181	\$ 1,446	\$ 30,627
Selected Financial Information			
Total assets (at end of period)	\$ 9,880,324	\$ 1,979,618	\$ 11,859,942
Depreciation and amortization	6,519	1,246	7,765
Three months ended September 30, 2005:			
Results of Operations			
Net interest revenue	\$ 80,572	\$ 7,869	\$ 88,441
Provision for credit losses	14,658	67	14,725
Net interest revenue after provision for credit losses	65,914	7,802	73,716
Noninterest revenue	23,852	24,311	48,163
Noninterest expense	58,876	30,637	89,513
Income before income taxes	30,890	1,476	32,366
Income taxes	9,073	434	9,507
Net income	\$ 21,817	\$ 1,042	\$ 22,859
Selected Financial Information			
Total assets (at end of period)	\$ 9,261,286	\$ 1,803,972	\$ 11,065,258
Depreciation and amortization	6,065	3,470	9,535

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	Community Banking	General Corporate and Other (In thousands)	Total
Nine months ended September 30, 2006:			
Results of Operations			
Net interest revenue	\$ 261,835	\$ 27,713	\$ 289,548
Provision for credit losses	2,167	85	2,252
Net interest revenue after provision for credit losses	259,668	27,628	287,296
Noninterest revenue	79,049	76,555	155,604
Noninterest expense	195,302	97,711	293,013
Income before income taxes	143,415	6,472	149,887
Income taxes	44,029	1,987	46,016
Net income	\$ 99,386	\$ 4,485	\$ 103,871
Selected Financial Information			
Total assets (at end of period)	\$9,880,324	\$1,979,618	\$11,859,942
Depreciation and amortization	18,601	3,858	