

COLONIAL BANCGROUP INC

Form S-4

August 06, 2003

Table of Contents

As filed with the Securities and Exchange Commission on August 6, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

THE COLONIAL BANCGROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

6022
(Primary Standard Industrial Classification
Code Number)

63-0661573
(I.R.S. Employer Identification No.)

One Commerce Street, Suite 800

Montgomery, Alabama 36104

(334) 240-5000

(Address of principal executive offices) (Telephone No.)

William A. McCrary

General Counsel

Post Office Box 1108

Montgomery, Alabama 36101-1108

(Name and address of agent for service)

Copies to:

Hugh C. Nickson, III
Miller, Hamilton, Snider & Odom, L.L.C.
One Commerce Street, Suite 305

Montgomery, Alabama 36104
Telephone: 334-834-5550
Facsimile: 334-265-4533

Robert C. Schwartz, Esq.
Smith, Gambrell & Russell, LLP
Promenade II, Suite 3100, 1230 Peachtree Street, NE

Atlanta, Georgia 30309
Telephone: 404-815-3500
Facsimile: 404-658-7058

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective time of the proposed merger of Sarasota Bancorporation, Inc. (Sarasota) with and into the Registrant (the Merger) as described in the Agreement and Plan of Merger, dated as of June 25, 2003, attached as Exhibit A to the Proxy Statement and Prospectus forming a part of this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price Per Unit | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee |
|---|-----------------------------------|---|---|-----------------------------------|
| Common Stock, par value \$2.50 per share | 2,748,510 | Not Applicable | \$ 12,745,960 | \$ 1,031.15 |

- (1) This Registration Statement covers the maximum number of shares of common stock of the Registrant which is expected to be issued in connection with the Merger.
- (2) Estimated solely for purposes of calculating the registration fee and based, pursuant to Rule 457(f)(2) under the Securities Act of 1933, as amended, based upon the June 30, 2003 book value of \$21.64 per share of 589,000 shares of company acquired.

The Registrant hereby amends this Registration Statement on each such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such

date as the Commission, acting pursuant to Section 8(a), may determine.

Table of Contents

2 North Tamiami Trail, Suite 100

Sarasota, Florida 34236-5541

August , 2003

Dear Shareholder:

You are cordially invited to attend the Special Meeting of Shareholders of Sarasota Bancorporation, Inc., which will be held on September , 2003, at 10:00 a.m. local time. The special meeting will be held at the Michael s on East restaurant, located at 1212 East Avenue South, Sarasota, Florida 34232.

At the special meeting, you will be asked to consider and vote on approval of an Agreement and Plan of Merger, dated as of June 25, 2003, between Sarasota and The Colonial BancGroup, Inc. The agreement provides for us to merge with BancGroup. In the merger, you will receive whole shares of BancGroup common stock in exchange for shares of Sarasota common stock held by you. The number of shares of BancGroup common stock you will receive is based upon the market value of BancGroup common stock during the trading period shortly before the merger. Cash will be paid for any fractional shares.

Please see the attached Proxy Statement-Prospectus for a complete description of the terms of the merger and the formula for converting shares of Sarasota common stock into shares of BancGroup common stock in the merger.

Your board of directors has unanimously approved the agreement as being in the best interests of the Sarasota shareholders and recommends that you vote in favor of the approval of the agreement.

Additional information regarding the agreement, the merger, Sarasota and BancGroup is set forth in the attached proxy statement. This document also serves as the prospectus for the shares of BancGroup common stock to be issued in connection with the merger. Please read these materials and carefully consider the information contained in them.

The affirmative vote of the holders of a majority of the outstanding shares of Sarasota common stock is required to approve the agreement. Accordingly, your vote is important no matter how large or small your holdings may be. Whether or not you plan to attend the special meeting, you are urged to complete, sign and promptly return the enclosed proxy card to assure that your shares will be voted at the special meeting. If you attend the special meeting, you may vote in person if you wish, and your proxy will not be used.

Sincerely,

CHRISTINE L. JENNINGS

President and CEO

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy of this Proxy Statement-Prospectus. Any representation to the contrary is a criminal offense. These securities are not savings or deposit accounts, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This Proxy Statement-Prospectus is dated August , 2003 and is first being mailed to the shareholders of Sarasota on or about August , 2003.

Table of Contents

2 North Tamiami Trail, Suite 100

Sarasota, Florida 34236-5541

SARASOTA BANCORPORATION, INC.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held on _____, 2003, at 10:00 a.m.

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Sarasota BanCorporation, Inc. will be held at the Michael s on East restaurant located at 1212 East Avenue South, Sarasota, Florida 34232, on _____, 2003, at 10:00 a.m., local time, for the following purposes:

1. *Merger.* To consider and vote upon the authorization, adoption and approval of the Agreement and Plan of Merger, dated June 25, 2003, by and between The Colonial BancGroup, Inc. and Sarasota BanCorporation, Inc. Colonial BancGroup will be the surviving corporation in the merger. At the time of the merger, each share of your Sarasota common stock will be converted into the right to receive a number of shares of Colonial BancGroup common stock as determined in accordance with the terms of the Agreement and Plan of Merger, with cash paid in lieu of fractional shares at the market value of such fractional shares, as described more fully in the accompanying Proxy Statement-Prospectus. The Agreement is attached to the Proxy Statement-Prospectus as Appendix A.

2. *Other Matters.* To transact such other business as may properly come before the Special Meeting or any adjournments or postponements thereof.

We have fixed the close of business on _____, 2003, as the record date for the determination of shareholders entitled to notice of and to vote at the Special Meeting. Only our holders of record at the close of business on that date will be entitled to notice of and to vote at the Special Meeting or any adjournments or postponements thereof. You are entitled to assert dissenters' rights pursuant to the Florida Business Corporation Act. A copy of the dissenters' rights provisions is attached to the enclosed Proxy Statement-Prospectus as Appendix B.

You are cordially invited to attend the Special Meeting, but whether or not you plan to attend, please complete and sign the enclosed form of proxy and mail it promptly in the enclosed envelope. The proxy may be revoked at any time by filing a written revocation with our president, by executing a later dated proxy and delivering it to our president, or by attending the Special Meeting and voting in person.

BY ORDER OF THE BOARD OF DIRECTORS

GILBERT J. WELLMAN

Chairman of the Board

_____, 2003

Table of Contents**TABLE OF CONTENTS**

| | Page |
|---|-------------|
| <u>QUESTIONS AND ANSWERS ABOUT THE MERGER</u> | i |
| <u>SUMMARY</u> | 1 |
| <u>A WARNING ABOUT FORWARD-LOOKING STATEMENTS</u> | 10 |
| <u>THE SPECIAL MEETING</u> | 11 |
| <u>General</u> | 11 |
| <u>Record Date; Shares Entitled to Vote; Vote Required for the Merger</u> | 11 |
| <u>Solicitation, Voting and Revocation of Proxies</u> | 12 |
| <u>Effect of Merger on Outstanding BancGroup Common Stock</u> | 13 |
| <u>THE MERGER</u> | 14 |
| <u>General</u> | 14 |
| <u>Background and Sarasota's Reasons for the Merger</u> | 14 |
| <u>Fairness Opinion of Keefe, Bruyette & Woods, Inc.</u> | 16 |
| <u>Recommendation of the Board of Directors of Sarasota</u> | 23 |
| <u>BancGroup's Reasons for the Merger</u> | 23 |
| <u>Interests of Certain Persons in the Merger</u> | 23 |
| <u>Conversion of Sarasota Common Stock</u> | 25 |
| <u>Surrender of Sarasota Common Stock Certificates</u> | 26 |
| <u>Treatment of Sarasota Options</u> | 26 |
| <u>Certain Federal Income Tax Consequences</u> | 26 |
| <u>Other Possible Consequences</u> | 28 |
| <u>Conditions to Consummation of the Merger</u> | 28 |
| <u>Amendment or Termination of Agreement</u> | 29 |
| <u>Commitment with Respect to Other Offers</u> | 29 |
| <u>Regulatory Approvals</u> | 30 |
| <u>Supervision and Regulation</u> | 32 |
| <u>Conduct of Business Pending the Merger</u> | 32 |
| <u>Indemnification</u> | 33 |
| <u>Rights of Dissenting Shareholders</u> | 33 |
| <u>Resale of BancGroup Common Stock Issued in the Merger</u> | 35 |
| <u>Accounting Treatment</u> | 36 |
| <u>NYSE Reporting of BancGroup Common Stock Issued in the Merger</u> | 36 |
| <u>COMPARATIVE MARKET PRICES AND DIVIDENDS</u> | 37 |
| <u>BANGROUP CAPITAL STOCK AND LONG TERM DEBT</u> | 38 |
| <u>BancGroup Common Stock</u> | 38 |
| <u>Preferred Stock</u> | 38 |
| <u>BancGroup Debt</u> | 39 |
| <u>Changes in Control</u> | 40 |
| <u>COMPARATIVE RIGHTS OF SHAREHOLDERS</u> | 41 |
| <u>Director Elections</u> | 42 |
| <u>Removal of Directors</u> | 42 |
| <u>Voting</u> | 42 |
| <u>Preemptive Rights</u> | 42 |
| <u>Directors' Liability</u> | 42 |
| <u>Indemnification</u> | 43 |
| <u>Special Meetings of Shareholders; Action Without a Meeting</u> | 44 |
| <u>Mergers, Share Exchanges and Sales of Assets</u> | 44 |

Table of Contents

| | <u>Page</u> |
|--|-------------|
| <u>Amendment of Certificate of Incorporation and Bylaws</u> | 44 |
| <u>Rights of Dissenting Stockholders</u> | 45 |
| <u>Preferred Stock</u> | 46 |
| <u>Effect of the Merger on Sarasota Shareholders</u> | 47 |
| <u>BUSINESS OF BANCGROUP</u> | 48 |
| <u>General</u> | 48 |
| <u>Voting Securities and Principal Stockholders</u> | 49 |
| <u>Security Ownership of Management</u> | 49 |
| <u>Management Information</u> | 50 |
| <u>BUSINESS OF SARASOTA</u> | 51 |
| <u>General</u> | 51 |
| <u>Market Area</u> | 51 |
| <u>Lending Activities</u> | 52 |
| <u>Competition</u> | 52 |
| <u>Employees</u> | 53 |
| <u>Description of Property</u> | 53 |
| <u>Legal Proceedings</u> | 53 |
| <u>Security Ownership of Management and Certain Beneficial Owners</u> | 54 |
| <u>ADJOURNMENT OF SPECIAL MEETING</u> | 55 |
| <u>OTHER MATTERS</u> | 55 |
| <u>DATE FOR SUBMISSION OF BANCGROUP STOCKHOLDER PROPOSALS</u> | 56 |
| <u>LEGAL MATTERS</u> | 56 |
| <u>EXPERTS</u> | 56 |
| <u>WHERE YOU CAN FIND MORE INFORMATION</u> | 57 |
| <u>INFORMATION INCORPORATED BY REFERENCE</u> | 57 |
| <u>APPENDIX A Agreement and Plan of Merger</u> | A-1 |
| <u>APPENDIX B Sections 607.1301, 607.1302 and 607.1320 of the Florida Business Corporation Act Regarding Dissenters' Rights</u> | B-1 |
| <u>APPENDIX C Fairness Opinion of Keefe, Bruyette & Woods, Inc. dated June 25, 2003</u> | C-1 |

This prospectus incorporates important business and financial information about BancGroup and Sarasota that is not included in or delivered with the prospectus. You may request this information at no cost by writing or telephoning BancGroup or Sarasota at the following:

William A. McCrary
General Counsel
The Colonial BancGroup, Inc.
Colonial Financial Center
One Commerce Street
Fifth Floor
Montgomery, Alabama 36104
(334) 240-5000

Christine L. Jennings
President and Chief Executive Officer
Sarasota Bancorporation, Inc.
2 North Tamiami Trail
Suite 100
Sarasota, Florida 34236
(941) 955-2626

In order to obtain information prior to the Special Meeting, you must make your request by _____, 2003.

A separately bound addendum accompanies this Proxy Statement-Prospectus that includes the following documents:

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Sarasota's Annual Report on Form 10-KSB for the year ended December 31, 2002; and

Sarasota's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003.

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What should I do now?

A: Send in your proxy card. After reviewing this document, indicate on your proxy card how you want to vote, and sign, date, and mail it in the enclosed envelope as soon as possible to ensure that your shares will be represented at the special meeting.

If you sign, date, and send in your proxy and do not indicate how you want to vote, your proxy will be voted in favor of the merger agreement and the merger. If you do not sign and send in your proxy, and if you do not attend and cast your vote in person at the special meeting, it will have the effect of voting against the merger.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, if you give your broker instructions on how to do so. Your broker will vote your shares of Sarasota common stock only if you provide your broker with instructions on how to vote. You should instruct your broker how to vote your shares by following the directions your broker provides. If you do not provide instructions to your broker, your shares will not be voted and this will have the effect of voting against the merger agreement and the merger.

Q: Can I change my mind and revoke my proxy?

A: Yes. You may revoke your proxy up to the time of the special meeting by taking any of the actions explained under The Special Meeting General on page 11 of this proxy statement-prospectus, including by giving a written notice of revocation, by signing and delivering a new later-dated proxy, or by attending the special meeting and voting in person.

Q: Can I vote my shares in person?

A: Yes. You may attend the special meeting and vote your shares in person rather than signing and mailing your proxy card.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, BancGroup or its transfer agent will send you written instructions explaining how you exchange your Sarasota common stock certificates for certificates representing shares of BancGroup common stock.

Q: When do you expect the merger to be completed?

A: We expect the merger to be completed in the fourth quarter of 2003. However, the timing of the completion of the merger is dependent on the merger agreement being approved by our shareholders as well as the approval of certain bank regulatory agencies and the satisfaction of other conditions described in this proxy statement-prospectus.

Q: Whom can I call with questions?

A: If you want additional copies of this document, or if you want to ask any questions about the merger agreement or the merger, you should contact: Christine L. Jennings, President and CEO of Sarasota BanCorporation, Inc., Telephone: (941) 955-2626.

Table of Contents

SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It does not contain all of the information that will be important to you as you consider your vote. You should carefully read the entire document and the other documents to which we refer. These will give you a more detailed description of the transaction that we are proposing. For more information about BancGroup, see *Where You Can Find More Information* (page 57). Each item in this summary refers to the pages where that subject is discussed in greater detail elsewhere in the proxy statement/prospectus. In this section, the terms *we* and *us* refer to Sarasota.

The Companies

One Commerce Street

Post Office Box 1108

Montgomery, Alabama 36101

(334) 240-5000

BancGroup is a financial holding company whose wholly-owned subsidiary, Colonial Bank, provides corporate and retail banking services and products in Alabama, Florida, Georgia, Tennessee, Texas and Nevada. As of June 30, 2003, BancGroup's total assets were about \$16.2 billion, deposits were about \$9.1 billion and shareholders' equity was about \$1.1 billion.

2 North Tamiami Trail, Suite 100

Sarasota, Florida 34236-5541

(941) 955-2626

Sarasota is a bank holding company whose wholly-owned subsidiary, Sarasota Bank, provides corporate and retail banking services principally in Sarasota County, Florida and surrounding areas. As of June 30, 2003, Sarasota's total assets were about \$168.3 million, deposits were about \$135.8 million and shareholders' equity was about \$12.7 million.

The Merger (page 14)

The merger agreement is the document that controls the anticipated merger between Sarasota and BancGroup. We encourage you to read the entire merger agreement, which is attached as Appendix A.

The merger agreement provides for the following:

Sarasota will merge into BancGroup. When the merger becomes effective, Sarasota will cease to exist as a separate entity and you, as a shareholder of Sarasota, will be entitled to receive shares of BancGroup common stock. The amount of BancGroup stock that you will receive will be determined as follows:

if the market value (an average of closing prices for BancGroup stock during a fixed period before the merger) of BancGroup stock is \$13.31 or greater, then you will receive a number of shares of

Table of Contents

BancGroup stock equal to \$62.11 divided by the market value of BancGroup stock for each share of Sarasota common stock you own just before the merger. The number of shares of BancGroup common stock that you will receive can also be represented by the following formula:

$$\frac{\$62.11}{\text{market value of BancGroup stock}} \times \text{the number of Sarasota shares you own just before the merger;}$$

if the market value of BancGroup stock is less than \$13.31, you will receive 4.6664 shares of BancGroup stock and a cash payment of \$13.31 minus the market value of BancGroup stock for each share of Sarasota common stock you own just prior to the merger times 4.6664. The merger consideration that you will receive can also be represented by the following formula:

$(4.6664 \text{ shares of BancGroup stock}) \times \text{the number of Sarasota shares you own just before the merger, plus a cash payment of } [(\$13.31 - \text{market value}) \times 4.6664] \times \text{the number of Sarasota shares you own just before the merger.}$

BancGroup will not issue fractional shares in the merger. If the number of shares you are to receive is not a whole number, you will receive cash instead of the fractional share based on the market value of BancGroup common stock.

If the merger is not completed prior to the record date for BancGroup's regular quarterly cash dividend that is anticipated to be declared on October 15, 2003, with a record date of October 24, 2003, if such dividend is actually declared, then after the completion of the merger, each Sarasota shareholder will receive a cash payment equal to the per share amount of such dividend multiplied by the number of shares of BancGroup common stock that such shareholder receives after the completion of the merger.

Comparative Market Prices (page 37)

BancGroup's common stock is traded on the New York Stock Exchange. On June 25, 2003, the last trading day before we announced the signing of the merger agreement, the closing price of BancGroup's common stock was \$13.93. The average closing price for BancGroup's common stock for the ten trading days ending on _____, 2003 was \$ _____.

There is no organized trading market for Sarasota's common stock. Therefore, the value of the stock can only be determined from prices paid in privately negotiated transactions known to management of Sarasota. These transactions are not reported on an exchange or other organized trading system. For these reasons, Sarasota lacks reliable data regarding recent trading activity in Sarasota common stock. The price paid in the last known transaction before June 25, 2003, the date we signed the merger agreement, was \$22.00 per share, on March 19, 2003.

The following table summarizes the comparative values of the two stocks just before the merger agreement was signed and the BancGroup equivalent price per share of Sarasota common stock.

| <u>BancGroup(1)</u> | <u>Sarasota(2)</u> | <u>Equivalent price per Sarasota share(3)</u> |
|---------------------|--------------------|---|
| \$13.93 | \$22.00 | \$62.11 |

- (1) Closing price on June 25, 2003.
- (2) Price obtained for shares sold on March 19, 2003.
- (3) If the merger had closed on June 25, 2003, and if the market value, as determined by the merger agreement, of BancGroup common stock had been equal to \$13.93, you would have received 4.4587 shares of BancGroup common stock for each share of Sarasota common stock you owned on that date.

Table of Contents

Our Reasons for the Merger (page 15)

We believe that the merger is in your best interest. We considered a number of factors in deciding to approve and recommend the terms of the merger agreement to you. These factors included the following:

the overall terms of the proposed transaction;

the financial condition, results of operations, and future prospects of BancGroup;

our financial condition, results of operations, and future prospects;

the value of the consideration to be received by you relative to the book value, earnings and dividends per share of our common stock;

the competitive and regulatory environment for community banks generally;

the fact that the merger will enable you to exchange your shares of Sarasota common stock (for which there is no established public trading market) for shares of common stock of a larger and more diversified entity, the stock of which is widely held and actively traded;

that the merger will enable you to hold stock in a financial institution that has historically paid cash dividends to its shareholders for over 15 years;

the likelihood that we and BancGroup will receive the requisite regulatory approvals to perform the merger; and

the fact that we expect that the receipt of BancGroup stock (but not cash) in the merger will be a tax-free transaction for federal income tax purposes.

We also took into account an opinion received from Keefe, Bruyette & Woods, Inc. that, based upon and subject to the assumptions made and matters set forth in the written opinion, as of June 25, 2003, the consideration to be received by the shareholders of Sarasota in the merger is fair, from a financial point of view, to such shareholders. In our deliberations, we did not assign any relative or specific weight to any of the factors that are discussed above, and individual members of our board of directors may have given different weights to different factors as they were discussed. In addition, the discussion of the information above and factors we considered is not intended to be exhaustive of the factors considered.

The Special Meeting (page 11)

We will hold a special meeting of the shareholders of Sarasota at 10:00 a.m. local time, on _____, _____, 2003 at the Michael's on East restaurant located at 1212 East Avenue South, Sarasota, Florida 34232. At the meeting, we will ask the shareholders to approve the merger

agreement and to act on any other matters that may be put to a vote at the meeting.

Our Recommendation to our Shareholders (page 23)

Your Board of Directors believes that the merger is fair to you and in your best interests, and unanimously recommends that you vote For the proposal to approve the merger agreement.

Record Date; Voting Power (page 11)

You may vote at the special meeting if you owned Sarasota shares as of the close of business on _____, 2003. You will have one vote for each share of stock you owned on that date.

Table of Contents

Vote Required (page 11)

If a quorum is present at the special meeting, then the affirmative vote of a majority of the outstanding shares will be sufficient to approve the merger agreement. A quorum consists of a majority of the shares outstanding on the record date. On the record date, 589,000 shares of Sarasota common stock were outstanding. The directors of Sarasota own an aggregate of 236,189 shares of Sarasota common stock representing approximately 40.1% of the outstanding shares. These individuals have agreed with BancGroup to vote their shares in favor of the merger agreement. Accordingly, if these individuals vote as they have agreed with BancGroup, then the merger agreement will be approved if holders of 58,312 of the remaining outstanding shares, representing 9.9% of the total outstanding, also vote to approve the merger agreement.

Exchange of Certificates (page 26)

Shortly after we complete the merger, BancGroup, or its transfer agent will send you detailed instructions on how to exchange your shares. PLEASE DO NOT SEND US OR BANCGROUP ANY STOCK CERTIFICATES UNTIL YOU RECEIVE THOSE INSTRUCTIONS.

Conditions to Completion of the Merger (page 28)

The completion of the merger depends on meeting a number of conditions, including the following:

the shareholders of Sarasota must approve the merger agreement;

all required regulatory approvals must be received, and any waiting periods must have passed;

there must be no governmental order blocking completion of the merger, and no proceedings by a government body trying to block the merger;

the completion of the merger before March 31, 2004; and

the receipt of certain professional opinions.

Unless prohibited by law, either Sarasota or BancGroup could elect to waive a condition that has not been satisfied and complete the merger anyway. We cannot be certain whether or when any of these conditions will be satisfied, or waived where permissible, or that we will complete the merger.

Termination of the Merger Agreement (page 29)

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BancGroup and Sarasota can agree at any time to terminate the merger agreement before completing the merger, even if the shareholders of Sarasota have already voted to approve it.

Either company can also terminate the merger agreement:

if the other party has materially breached the merger agreement and has not cured the breach;

if the merger has not been completed by March 31, 2004, (provided that the failure to complete has not been caused by the breach of the company electing to terminate); or

if Sarasota enters into a binding agreement with any third party to merge with, or sell control to, that third party. In that event, BancGroup will have the right to receive a payment of \$2,500,000 from Sarasota or its acquirer.

Table of Contents

Federal Income Tax Consequences (page 26)

We expect that neither the two companies nor the Sarasota shareholders will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger, except in connection with any cash payment that a Sarasota shareholder may receive if the market value is less than \$13.31 at the time of the merger, for a fractional share, or in connection with additional contingent consideration that Sarasota shareholders may receive if the merger is completed after October 24, 2003. BancGroup has received an opinion from PricewaterhouseCoopers LLP that this will be the case. The opinion will not bind the Internal Revenue Service, which could take a different view. We expect that any cash received if BancGroup's market value is below \$13.31 will be treated as capital gain for federal income tax purposes.

This non-recognition of gain or loss tax treatment will not apply to any cash received in connection with the merger or to a Sarasota shareholder who chooses to dissent from the transaction and receive cash instead of BancGroup stock for such shareholder's Sarasota stock as provided under Florida law. The procedures for exercising dissenters' rights are discussed at page .

Determining the actual tax consequences to you as an individual taxpayer can be complicated. For example, the opinion referred to above does not address any tax issues arising under state law. The overall tax treatment applicable to you will depend on your specific situation and many variables not within our control. You should consult your own tax advisor for a full understanding of the merger's tax consequences to you.

Accounting Treatment (page 36)

The merger will be accounted for as a purchase. The purchase price will be allocated to the fair value of the net tangible and identifiable intangible assets acquired, with any amounts in excess thereof being assigned to goodwill. Goodwill will be capitalized unless and until it is deemed to be impaired, in which case the impairment will be measured and any such amount will be charged against current earnings.

Interests of Persons Involved in the Merger that are Different from Yours (page 23)

Certain directors, executive officers and employees of Sarasota have interests in the merger that are different from your interests. These differing interests include the following:

Employees of Sarasota currently hold options to acquire 64,216 shares of Sarasota common stock. BancGroup and each holder of Sarasota stock options have agreed that such holder will exchange his or her Sarasota stock options for the right to receive a cash payment equal to \$62.11 multiplied by the number of shares of Sarasota common stock that would have been issuable in connection with the exercise of the Sarasota stock options less the aggregate exercise price for the Sarasota stock options.

Sarasota currently indemnifies its directors and certain officers, employees and agents against loss from claims arising out of their position with Sarasota. For a period of six years after the merger, BancGroup will, subject to some limitations, continue to indemnify those persons against claims that arise from the period when they worked for, or served as directors of, Sarasota.

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Upon completion of the merger, Sarasota employees will either become employees of BancGroup or one of its subsidiaries and become eligible for BancGroup's employee benefits, or they will be eligible to receive severance benefits under BancGroup's severance policy.

Pursuant to their currently existing employment agreements with Sarasota, Christine L. Jennings and Paul D. Thatcher are expected to receive cash payments of \$450,000 and \$161,460, respectively, at the closing of the merger.

Table of Contents

Christine L. Jennings has entered into an employment agreement with BancGroup that will become effective when and if the merger is completed. The agreement provides for a term of two years, and a base compensation of approximately \$175,000. The agreement also provides that Ms. Jennings will receive a transition fee of \$48,000 so long as she is employed by Colonial Bank one year after the completion of the merger. The employment agreement also contains provisions that will pay certain civic or social club fees for Ms. Jennings and a car allowance of \$700 per month. The employment agreement also provides that Ms. Jennings will be eligible to receive options to purchase 10,000 shares of BancGroup common stock. The employment agreement also contains a covenant prohibiting Ms. Jennings from soliciting BancGroup's customers and employees for two years following termination of employment.

Paul D. Thatcher has entered into an employment agreement with BancGroup that will become effective when and if the merger is completed. The agreement provides for a term of one year, and a base compensation of approximately \$107,640. The employment agreement also provides for a car allowance of \$500 per month. The employment agreement also provides that Mr. Thatcher will be eligible to receive options to purchase 2,500 shares of BancGroup common stock. The employment agreement also contains a covenant prohibiting Mr. Thatcher from soliciting BancGroup's customers and employees for two years following termination of employment.

As an inducement to stay employed with Sarasota Bank at least until the closing of the Merger, certain employees of Sarasota Bank may be paid a bonus on the effective date of the merger. The aggregate amount of such bonuses will not exceed \$100,000.

Sarasota's directors have entered into affiliate agreements with BancGroup regarding various issues associated with the merger. These agreements provide that the director would, among other things:

agree to vote his or her shares for the merger;

not distribute BancGroup common stock issued in connection with the merger except in accordance with certain rules of the SEC; and

support the business of Colonial Bank after the merger.

Additionally, Sarasota's directors who are not also employees of Sarasota agreed generally not to compete with Colonial Bank for a period of two years after the effective date of the Merger and will be entitled to receive cash payments ranging from \$10,000 to \$55,000 for these non-compete agreements. The aggregate amount of such payments is \$400,000.

Fairness Opinion (page 16)

In deciding to approve the merger, your Board of Directors considered the opinion of its financial advisor, Keefe, Bruyette & Woods, Inc., that, based upon and subject to the assumptions made and matters set forth in the written opinion, as of June 25, 2003, the consideration to be received by the shareholders of Sarasota in the merger, is fair, from a financial point of view, to such shareholders. We have attached as Appendix C the written opinion of Keefe, Bruyette & Woods, Inc. dated as of June 25, 2003. You should read it carefully to understand the assumptions made, matters considered and limitations of the review undertaken by Keefe, Bruyette & Woods, Inc. in providing its opinion.

Dissenters' Rights (page 33)

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Sarasota shareholders entitled to vote at the special meeting are entitled to exercise dissenters' rights of appraisal under Florida law. These rights entitle a shareholder to dissent from the transaction and, by strictly following the requirements fixed by law, receive fair value for their stock. The fair value may ultimately be determined in a judicial proceeding, the result of which cannot be predicted with certainty. Dissenting shareholders who receive cash for their stock will likely be subject to federal income tax treatment that differs from that available to shareholders who receive BancGroup stock. The text of the applicable Florida statutes is set forth in Appendix B.

Table of Contents**Where You Can Find More Information (page 57)**

This document incorporates important business and financial information about BancGroup and Sarasota from documents that are not included in or delivered with this document. You can obtain documents regarding BancGroup incorporated by reference in this document (other than certain exhibits to those documents) by requesting them in writing or by telephone from BancGroup by contacting William A. McCrary, General Counsel, Post Office Box 1108, Montgomery, Alabama 36101-1108, telephone: (334) 240-5315. You can obtain documents regarding Sarasota by requesting them in writing or by telephone from Sarasota by contacting Christine L. Jennings, President and Chief Executive Officer, 2 North Tamiami Trail, Suite 100, Sarasota, Florida 34236-5541, telephone: (941) 955-2626. You will not be charged for any of these documents. **If you would like to request a document, please do so by _____, 2003, in order to receive them before the special meeting.** You may also find documents regarding BancGroup and Sarasota filed or furnished at the Security and Exchange Commission's website at www.sec.gov.

Recent Developments BancGroup

The following table presents certain consolidated financial data for BancGroup for the periods ended June 30, 2003, June 30, 2002, December 31, 2001 and December 31, 2002, which have been derived from BancGroup's financial statements. The unaudited historical data reflect, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of such data and is presented for informational purposes only.

The Colonial Bancgroup, Inc. and Subsidiaries**Financial Highlights Unaudited**

| | June 30, | June 30, | December 31, | % Change June 30, 02 to 03 | % Change Dec. 31, 02 to June 30, 03 |
|---|-----------|-----------|--------------|--|--|
| | 2003 | 2002 | 2002 | | |
| Statement of Condition Summary (Dollars in millions, except per share amounts) | | | | | |
| Total assets | \$ 16,208 | \$ 13,673 | \$ 15,822 | 19% | 2% |
| Loans | 11,769 | 10,370 | 11,692 | 13% | 1% |
| Total earnings assets | 15,032 | 12,764 | 14,716 | 18% | 2% |
| Deposits | 9,141 | 8,654 | 9,320 | 6% | -2% |
| Long term debt | 1,774 | 1,872 | 1,999 | -5% | -11% |
| Shareholders' equity | 1,122 | 961 | 1,071 | 17% | 5% |
| Book value per share | \$ 9.03 | \$ 8.13 | \$ 8.66 | 11% | 4% |

Table of Contents

| | Six months ended | | Change | Year ended | | Change |
|--|------------------|------------|----------|--------------|------------|--------------|
| | June 30, | | June 30, | December 31, | | December 31, |
| | 2003 | 2002 | 02 to 03 | 2002 | 2001 | 01 to 02 |
| Earnings Summary | | | | | | |
| (Dollars in thousands, except per share amounts) | | | | | | |
| Net interest income | \$ 246,251 | \$ 225,751 | 9% | \$ 461,170 | \$ 421,929 | 9% |
| Provision for loan losses | 18,870 | 17,974 | 5% | 35,980 | 39,573 | -9% |
| Noninterest income | 63,745 | 46,358 | 38% | 102,332 | 93,709 | 9% |
| Noninterest expense | 179,948 | 146,908 | 22% | 312,779 | 284,168 | 10% |
| Income from continuing operations before tax | 111,178 | 107,227 | | 214,743 | 191,897 | |
| Income tax | 37,801 | 36,993 | | 73,872 | 69,181 | |
| Income from continuing operations | 73,377 | 70,234 | | 140,871 | 122,716 | |
| Discontinued operations, net of tax(1) | | | | (846) | (613) | |
| Net Income | \$ 73,377 | \$ 70,234 | 4% | \$ 140,025 | \$ 122,103 | 15% |
| Earnings Per Share: | | | | | | |
| Net Income | | | | | | |
| Basic | \$ 0.59 | \$ 0.59 | 0% | \$ 1.17 | \$ 1.06 | 10% |
| Diluted | \$ 0.59 | \$ 0.59 | 0% | \$ 1.16 | \$ 1.06 | 9% |
| Average shares outstanding | 123,896 | 117,554 | | 119,583 | 114,811 | |
| Average diluted shares outstanding | 124,540 | 118,747 | | 120,648 | 115,881 | |

| | June 30, 2003 | Dec. 31, 2002 | June 30, 2002 |
|---|------------------|------------------|------------------|
| Nonperforming Assets | | | |
| Total non-performing assets ratio | 0.71% | 0.78% | 0.60% |
| Allowance as a percent of nonperforming loans | 210% | 191% | 325% |
| Net charge-off ratio (annualized): | | | |
| Quarter to date | 0.37% | 0.44% | 0.19% |
| Year to date | 0.29% | 0.29% | 0.22% |

- (1) In December 2000, BancGroup exited the mortgage servicing business. The financial results for this line of business have been separately reported as Discontinued Operations in all periods presented.

Table of Contents**Per Share Data**

The table below presents on a per share basis the book value, cash dividends and income from continuing operations of BancGroup and Sarasota on a historical basis and on a pro forma equivalent basis assuming consummation of the Merger.

| | Six Months Ended June 30, 2003 | Year Ended December 31, 2002 |
|--|---|---|
| BancGroup Historical: | | |
| Income from Continuing Operations: | | |
| Basic | \$ 0.59 | \$ 1.18 |
| Diluted | 0.59 | 1.17 |
| Book Value at end of period | 9.03 | 8.66 |
| Dividends per share | 0.28 | 0.52 |
| Sarasota Historical: | | |
| Net Income: | | |
| Basic | 1.85 | 2.98 |
| Diluted | 1.67 | 2.68 |
| Book Value at end of period | 21.64 | 20.12 |
| Dividends per share | 0.10 | |
| BancGroup Pro Forma Combined | | |
| Income from Continuing Operations: | | |
| Basic | 0.59 | 1.17 |
| Diluted | 0.59 | 1.16 |
| Book Value at end of period | 9.13 | N/A |
| BancGroup-Pro Forma Combined Per Equivalent Sarasota Share: | | |
| Income from Continuing Operations: (a) | | |
| Basic | 2.62 | 5.21 |
| Diluted | 2.62 | 5.16 |
| Book Value at end of period (a) | 40.62 | N/A |
| Dividends per share (b) | 1.25 | 2.31 |

N/A Not applicable due to the fact that the pro forma balance sheet is only calculated at June 30, 2003 which assumes the transaction consummated on the latest balance sheet date in accordance with Rule 11.02(b) of Regulation S-X.

- (a) Pro forma equivalent per share amounts are calculated by multiplying the pro forma combined total income per share and the pro forma combined total book value per share of BancGroup by the exchange ratio so that the per share amounts are equated to the respective values for one share of Sarasota BanCorporation. For these pro forma equivalent share amounts, a 4.4491 BancGroup common stock exchange ratio is utilized (which is the exchange ratio that would have been used if the merger had been completed on June 30, 2003).
- (b) Pro forma equivalent dividends per share are shown at BancGroup's common stock dividend per share rate multiplied by the 4.4491 exchange ratio per share of Sarasota BanCorporation common stock. BancGroup presently contemplates that dividends will be declared in the future. However, the payment of cash dividends is subject to BancGroup's actual results of operations as well as certain other internal and external factors. Accordingly, there is no assurance that cash dividends will either be declared and paid in the future, or, if declared and paid, that such dividends will approximate the pro forma amounts indicated.

Table of Contents

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We and BancGroup make forward-looking statements in this document and in BancGroup's and Sarasota's public documents. When we or BancGroup use words such as anticipate, believe, estimate, may, intend, expect, will, should, seeks or other similar expressions BancGroup refer to events or conditions subject to risks and uncertainties. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this proxy statement-prospectus. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. In addition to the risks identified below, you should refer to our and BancGroup's public documents for specific risks which could cause actual results to be significantly different from those expressed or implied by those forward-looking statements. Some factors which may affect the accuracy of the forward-looking statements apply generally to the financial services industries, while other factors apply directly to us or BancGroup. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

expected cost savings from reorganization into BancGroup are not fully realized;

deposit attrition, customer loss, or revenue loss following the reorganization into BancGroup are greater than expected;

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

increases in competitive pressure in the banking industry;

changes in the interest rate environment which reduce margins;

general economic conditions, either nationally or regionally, that are less favorable than expected, resulting in, among other things, a deterioration in credit quality;

changes which may occur in the regulatory environment;

a significant rate of inflation or deflation;

acts of terrorism, such as the events of September 11, 2001, and war; and

changes in the securities markets.

Many of these factors are beyond our control and beyond the control of BancGroup. For a discussion of factors that could cause BancGroup's actual results to differ, please see the discussions in the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the year ended December 31, 2002 and its Quarterly Report on Form 10-Q for the period ended March 31, 2003.

Table of Contents

THE SPECIAL MEETING

General

This Proxy Statement-Prospectus is being furnished to the shareholders of Sarasota Bancorporation, Inc. ("Sarasota") in connection with the solicitation of proxies by the Board of Directors of Sarasota for use at the special meeting of the shareholders of Sarasota to be held on _____, 2003 (the "Special Meeting") and at any adjournments or postponements thereof. The purpose of the Special Meeting is to consider and vote upon the Agreement which provides for the proposed merger of Sarasota with and into BancGroup (the "Merger"). BancGroup will be the surviving corporation in the Merger.

The Board of Directors of Sarasota believes that the Merger is in the best interests of the Sarasota shareholders and unanimously recommends that shareholders vote FOR the Agreement (item 1 on the proxy card).

This Proxy Statement-Prospectus is also furnished by BancGroup in connection with the offer of shares of BancGroup common stock to be issued in the Merger. No vote of BancGroup shareholders is required to approve the Merger.

Record Date; Shares Entitled to Vote; Vote Required for the Merger

The Board of Directors of Sarasota has fixed the close of business on _____, 2003, as the date for the determination of shareholders entitled to vote at the Special Meeting (the "Record Date"). There were 427 record holders of Sarasota common stock and 589,000 shares of Sarasota common stock outstanding, each entitled to one vote per share, as of the Record Date. As of the date of this Proxy Statement-Prospectus, Sarasota was obligated to issue up to an additional 64,216 shares of Sarasota common stock upon the exercise of outstanding Sarasota options.

The presence at the Special Meeting, in person or by proxy, of the holders of a majority of the outstanding shares of Sarasota common stock on the Record Date is necessary to constitute a quorum for the transaction of business at the Special Meeting. In the absence of a quorum, the Special Meeting may be postponed from time to time until Sarasota shareholders holding the requisite number of shares of Sarasota common stock are represented in person or by proxy. If a quorum is present, the affirmative vote of the holders of at least a majority of the outstanding shares of Sarasota common stock, whether or not present or represented at the Special Meeting, is required to approve the Agreement. Broker non-votes and abstentions will not be counted as votes FOR or AGAINST the proposal to approve the Agreement, and, as a result, such non-votes will have the same effect as votes cast AGAINST the Agreement. Each holder of record of shares of Sarasota common stock is entitled to cast, for each share registered in his or her name, one vote on the Agreement as well as on each other matter presented to a vote of shareholders at the Special Meeting.

As of the Record Date, directors of Sarasota owned 236,189 shares of Sarasota common stock representing approximately 40.1% of the outstanding shares. These individuals have agreed with BancGroup to vote their shares in favor of the Agreement. Accordingly, if these individuals vote as they have agreed with BancGroup, then the Agreement will be approved if holders of 58,312 of the remaining shares (9.9% of the total outstanding) also vote to approve it.

If the Agreement is approved at the Special Meeting, Sarasota is expected to merge with and into BancGroup promptly after the other conditions to the Agreement are satisfied. See The Merger Conditions of Consummation of the Merger.

Table of Contents

THE BOARD OF DIRECTORS OF SARASOTA URGES THE SHAREHOLDERS OF SARASOTA TO EXECUTE AND RETURN THE ENCLOSED PROXY CARD AS SOON AS POSSIBLE AND UNANIMOUSLY RECOMMENDS THAT THE SHARES REPRESENTED BY THE PROXY BE VOTED IN FAVOR OF THE AGREEMENT.

Solicitation, Voting and Revocation of Proxies

In addition to soliciting proxies by mail, directors, officers and other employees of Sarasota, without receiving special compensation therefor, may solicit proxies from the shareholders of Sarasota by telephone, by e-mail or other electronic means, by facsimile or in person. Arrangements will also be made with brokerage firms and other custodians, nominees and fiduciaries, if any, to forward solicitation materials to any beneficial owners of shares of Sarasota common stock.

Sarasota will bear the cost of assembling and mailing this Proxy Statement-Prospectus and other materials furnished to its shareholders. Sarasota will also pay all other expenses of solicitation, including the expenses of brokers, custodians, nominees, and other fiduciaries who, at the request of Sarasota, mail material to, or otherwise communicate with, beneficial owners of the shares held by them. BancGroup will pay all expenses incident to the registration of the BancGroup common stock to be issued in connection with the Merger.

Shares of Sarasota common stock represented by a proxy properly signed and received at or prior to the Special Meeting, unless properly revoked, will be voted in accordance with the instructions on the proxy. If a proxy is signed and returned without any voting instructions, shares of Sarasota common stock represented by the proxy will be voted FOR the proposal to approve the Agreement and in accordance with the determination of the majority of the Board of Directors of Sarasota as to any other matter which may properly come before the Special Meeting, including any adjournment or postponement thereof. A shareholder may revoke any proxy given pursuant to this solicitation by: (i) delivering to the President of Sarasota, prior to or at the Special Meeting, a written notice revoking the proxy; (ii) delivering to the President of Sarasota, at or prior to the Special Meeting, a duly executed proxy relating to the same shares and bearing a later date; or (iii) voting in person at the Special Meeting. Attendance at the Special Meeting will not, in and of itself, constitute a revocation of a proxy. All written notices of revocation and other communications with respect to the revocation of a proxy should be addressed to:

Sarasota Bancorporation, Inc.

2 North Tamiami Trail

Suite 100

Sarasota, Florida 34236

Attention: Christine L. Jennings, President and CEO

facsimile: (941) 365-0483

Proxies marked as abstentions and shares held in street name which have been designated by brokers on proxy cards as not voted will not be counted as votes cast. Such proxies will, however, be counted for purposes of determining whether a quorum is present at the Special Meeting.

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The Board of Directors of Sarasota is not aware of any business to be acted upon at the Special Meeting other than consideration of the Agreement described herein. If, however, other matters are properly brought before the Special Meeting, or any adjournments or postponements thereof, the persons appointed as proxies will have the discretion to vote or act on such matters according to their best judgment. Proxies voted in favor of the approval of the Agreement, or proxies as to which no voting instructions are given, will be voted to adjourn the Special Meeting, if necessary, in order to solicit additional proxies in favor of the approval of the Agreement. Proxies voted against the approval of the Agreement and abstentions will not be voted for an adjournment. See Adjournment of the Special Meeting.

Table of Contents

Effect of Merger on Outstanding BancGroup Common Stock

At the consummation of the Merger, the Market Value of BancGroup's Common Stock will be the average of the closing prices of the BancGroup common stock as reported by the New York Stock Exchange (NYSE) on each of the ten trading days ending on the trading day five trading days immediately preceding the Effective Date. Assuming that no dissenters' rights of appraisal are exercised in connection with the Merger, that 589,000 shares of Sarasota common stock are outstanding on the Effective Date and the Market Value of BancGroup common stock is \$13.31 or less then BancGroup will issue approximately 2,748,510 shares in connection with the Merger. The issuance of 2.7 million shares of BancGroup common stock would represent approximately 2% of the total number of shares of BancGroup common stock outstanding following the Merger, not counting any additional shares BancGroup may issue for reasons unconnected to the Merger. The average closing price for BancGroup common stock for the ten trading days ending on _____, 2003 was \$ _____. If the Market Value of BancGroup common stock is \$ _____ per share on the Effective Date, then BancGroup will issue approximately _____ million shares in connection with the Merger, which would represent approximately _____% of the total number of shares of BancGroup common stock outstanding following the Merger, not counting any additional shares BancGroup may issue for reasons unconnected to the Merger.

Table of Contents

THE MERGER

The following sets forth a summary of the material provisions of the Agreement and the transactions contemplated thereby. The description does not purport to be complete and is qualified in its entirety by reference to the Agreement, a copy of which is attached hereto as Appendix A, and certain provisions of Florida law relating to the rights of dissenting shareholders, a copy of which is attached hereto as Appendix B. All Sarasota shareholders are urged to read the Agreement and the Appendices in their entirety.

General

The Agreement provides that, subject to approval by the shareholders of Sarasota, receipt of necessary regulatory approvals and satisfaction of certain other conditions described below at Conditions to Consummation of the Merger, Sarasota will merge with and into BancGroup. Upon completion of the Merger, the corporate existence of Sarasota will cease, and BancGroup will succeed to the business formerly conducted by Sarasota.

Background of the Merger

Sarasota was organized in 1990 by businessmen and investors primarily located in Sarasota, Florida, with the intent of bringing community-style banking to Sarasota. From its opening in September 1992, Sarasota's subsidiary, Sarasota Bank, grew steadily in Sarasota County.

In late 2001 and early 2002, management of Sarasota began discussing with the Board of Directors management's projections for the continued growth of the company in the Sarasota market and the company's corresponding need for capital. Management and the board discussed various alternatives for meeting the company's forecasted capital needs, including conducting a securities offering or investigating the possibility of a business combination involving the company. In February 2002, the Sarasota board of directors formed a special committee to further investigate long-term planning and strategic alternatives for the company (the Committee). The Committee consists of the following members of the board of directors: Gilbert J. Wellman, Christine L. Jennings, Sam D. Norton, and Timothy J. Clarke. The alternatives to be considered by the Committee ranged from strategies related to raising additional capital, expansion into other markets or seeking a strategic partner for a business combination.

In October 2002, Mr. Wellman, Mr. Norton and Ms. Jennings met with representatives from a Florida-based bank holding company that had approached Sarasota regarding a potential business combination. Sarasota and this third party engaged in several discussions throughout the fall of 2002 but no formal negotiations commenced. Although the Committee met again with representatives from this financial institution in December 2002, the Committee determined that it would be appropriate for this institution to participate in the process along with any other financial institutions that might be contacted on behalf of Sarasota as discussed below.

On October 31, 2002, the Committee interviewed several investment banking firms regarding Sarasota's pursuit of its strategic alternatives. On November 12, 2002, the Committee met separately with the investment banking firm of Keefe, Bruyette & Woods, Inc. (KBW). On that same day, the Committee authorized management to enter into an exclusive agreement with KBW to provide financial advisory services related to Sarasota's evaluation of a possible sale to or merger with a large regional or national bank. Sarasota and KBW executed the exclusive agreement

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on November 25, 2002. Sarasota selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in evaluating and executing transactions similar to the Merger. As part of its investment banking business, KBW is continually engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions.

Table of Contents

During January 2003, KBW conducted a due diligence investigation of Sarasota and worked with Sarasota's management to prepare a Confidential Memorandum to send to prospective acquirors identified by KBW and approved by Sarasota. Through this process 12 regional and national banks were identified and contacted by KBW. In March 2003, 10 of the 12 institutions contacted signed confidentiality agreements and received the Confidential Memorandum. After approximately three weeks of review, three institutions submitted non-binding indications of interest. The Florida-based bank holding company discussed above did not submit an indication of interest. On March 25, 2003, KBW presented to the Committee a comprehensive analysis of the three banks along with each bank's indication of interest. After a review of the proposed terms submitted by these banks, the Committee decided to commence further negotiations with a Florida-based bank holding company. After a few weeks, negotiations with this potential acquiror terminated and the Committee identified BancGroup as the most promising merger partner based on the price, the form of consideration, the proposed role of Sarasota's management team and employees, and the fact that BancGroup is a leading financial holding company, headquartered in Montgomery, Alabama with affiliate banking operations in Alabama, Florida, Georgia, Tennessee, Texas and Nevada. In addition, BancGroup had recently entered the Sarasota market by acquiring a branch in 2001 and was seeking to expand its presence in the Southwest Florida market.

On April 29, 2003, the Committee met with representatives of BancGroup to discuss the details of a potential business combination. On May 7, 2003, BancGroup submitted a formal offer to acquire Sarasota, subject to customary closing conditions and completion of due diligence. During the week of May 26, 2003, BancGroup conducted an onsite due diligence investigation of Sarasota. Sarasota, with the assistance of its outside counsel, Smith, Gambrell and Russell, LLP, and KBW, continued negotiations with BancGroup through June 25, 2003. The parties exchanged a number of drafts of the merger agreement, written comments and response letters which resulted in a fixed price to Sarasota shareholders of \$62.11 per share. The amount of shares of BancGroup common stock that each Sarasota shareholder would receive would be dependent upon the market value of BancGroup's common stock in the days leading up to the merger. If the market value was \$13.31 or less, each Sarasota shareholder would receive 4.6664 shares of BancGroup common stock for each share of Sarasota common stock plus a cash payment for each share of Sarasota common stock equal to \$13.31 minus the market value of BancGroup common stock times 4.6664. If the market value was greater than \$13.31, each Sarasota shareholder would receive a number of shares of BancGroup common stock equal to \$62.11 divided by the market value of BancGroup common stock for each share of Sarasota common stock. The Committee believed that due to the uncertainty in the economy and other factors it was important to fix the price at \$62.11.

A meeting of Sarasota's Board of Directors was held on June 25, 2003, at which representatives of Smith, Gambrell & Russell and KBW were also present. Representatives of Smith, Gambrell & Russell reviewed and discussed with the board the terms of the proposed merger agreement, and representatives of KBW delivered and described that firm's opinion that, as of the date of the meeting, the merger consideration to be received by the Sarasota shareholders was fair, from a financial point of view, to such shareholders. After discussion, the board unanimously approved the merger and authorized management of Sarasota to execute the merger agreement and take such further action as necessary to consummate the merger, subject to regulatory and shareholder approval.

Shortly following the conclusion of the board of directors meeting, the parties entered into the merger agreement. The parties announced the signing of the merger agreement on June 26, 2003.

Sarasota's Reasons for the Merger

On June 25, 2003, the board of directors of Sarasota unanimously approved and adopted the merger agreement. The board of directors of Sarasota believes that the merger and the terms and provisions of the merger agreement are fair to and in the best interests of Sarasota shareholders. The board of directors of Sarasota unanimously recommends that you vote to approve the merger.

Table of Contents

In reaching its decision to adopt and recommend approval of the merger agreement, the board of directors of Sarasota considered a number of factors, including the following:

the overall terms of the proposed transaction;

the financial condition, results of operations, and future prospects of BancGroup;

our financial condition, results of operations, and future prospects;

the value of the consideration to be received by you relative to the book value, earnings and dividends per share of our common stock;

the competitive and regulatory environment for community banks generally;

the fact that the merger will enable you to exchange your shares of Sarasota common stock (for which there is no established public trading market) for shares of common stock of a larger and more diversified entity, the stock of which is widely held and actively traded;

that the merger will enable you to hold stock in a financial institution that has historically paid cash dividends to its shareholders for over 15 years;

the likelihood that we and BancGroup will receive the requisite regulatory approvals to perform the merger; and

the fact that we expect that the receipt of BancGroup stock (but not cash) in the merger will be a tax-free transaction for federal income tax purposes.

The foregoing discussion of the information and factors considered by the Sarasota board is not intended to be exhaustive, but includes the material factors considered. In view of the variety of factors considered in connection with its evaluation of the merger and the offer price, the Sarasota board did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching its determinations and recommendations, and individual directors may have given differing weight to different factors.

Each member of the board of directors of Sarasota has indicated that he or she intends to vote his or her shares of Sarasota common stock in favor of the Merger.

Fairness Opinion of Keefe, Bruyette & Woods, Inc.

Sarasota engaged Keefe, Bruyette & Woods, Inc. (KBW) to act as its exclusive financial advisor in connection with the Merger. KBW agreed to assist Sarasota in analyzing and effecting a transaction with BancGroup. Sarasota selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the Merger and is familiar with Sarasota and its business. As part

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of its investment banking business, KBW is continually engaged in the valuation of financial businesses and their securities in connection with mergers and acquisitions.

On June 25, 2003, Sarasota's Board held a meeting to evaluate the proposed Merger with BancGroup. At this meeting, KBW reviewed the financial aspects of the proposed Merger and rendered an oral opinion (subsequently confirmed in writing) that, as of that date, the merger consideration in the Merger was fair to Sarasota and its shareholders from a financial point of view.

The full text of KBW's written opinion is attached as Appendix C to this document and is incorporated herein by reference. Sarasota's shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW.

Table of Contents

KBW's opinion is directed to the Board of Sarasota and addresses only the fairness, from a financial point of view, of the merger consideration to the Sarasota shareholders. It does not address the underlying business decision to proceed with the Merger and does not constitute a recommendation to any Sarasota shareholder as to how the shareholder should vote at the Sarasota special meeting on the Merger or any related matter.

In rendering its opinion, KBW:

reviewed, among other things,

the Agreement,

Annual Reports to Shareholders and Annual Reports on Form 10-KSB for the three years ended December 31, 2002, 2001 and 2000 of Sarasota,

Annual Reports to Shareholders and Annual Reports on Form 10-K for the three years ended December 31, 2002, 2001 and 2000 of BancGroup,

Certain interim reports to shareholders and Quarterly Reports on Form 10-QSB of Sarasota and certain other communications from Sarasota to its shareholders,

Certain interim reports to shareholders and Quarterly Reports on Form 10-Q of BancGroup and certain other communications from BancGroup to its shareholders, and

Other financial information concerning the businesses and operations of Sarasota and BancGroup furnished to KBW by Sarasota and BancGroup for purposes of KBW's analysis;

held discussions with members of senior management of Sarasota and BancGroup regarding

past and current business operations,

regulatory relationships,

financial condition, and

future prospects of the respective companies;

reviewed the market prices, valuation multiples, publicly reported financial condition and results of operations for BancGroup and compared them with those of certain publicly traded companies that KBW deemed to be relevant;

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reviewed the publicly reported financial conditions and results of operations for Sarasota and compared them with those of certain other companies that KBW deemed to be relevant;

compared the proposed financial terms of the Merger with the financial terms of certain other transactions that KBW deemed to be relevant; and

performed other studies and analyses that it considered appropriate.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to or otherwise made available to KBW or that was discussed with, or reviewed by or for KBW, or that was publicly available. KBW did not attempt or assume any responsibility to verify such information independently. KBW relied upon the management of Sarasota as to the reasonableness and achievability of the financial and operating forecasts and projections (and assumptions and bases therefor) provided to KBW. KBW assumed, without independent verification, that the aggregate allowances for loan and lease losses for BancGroup and Sarasota are adequate to cover those losses. KBW did not make or obtain any evaluations or appraisals of any assets or liabilities of BancGroup or Sarasota, and KBW did not examine any books and records or review individual credit files.

Table of Contents

The projections furnished to KBW and used by it in certain of its analyses were prepared by Sarasota's senior management. Sarasota does not publicly disclose internal management projections of the type provided to KBW in connection with its review of the Merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

For purposes of rendering its opinion, KBW assumed that, in all respects material to its analyses:

the Merger will be completed substantially in accordance with the terms set forth in the Merger Agreement;

the representations and warranties of each party in the Merger Agreement and in all related documents and instruments referred to in the Merger Agreement are true and correct;

each party to the Merger Agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the Merger will be satisfied without any waivers; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the Merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the Merger, including the cost savings, revenue enhancements and related expenses expected to result from the Merger.

KBW further assumed that the Merger will be accounted for as a purchase transaction under generally accepted accounting principles. KBW's opinion is not an expression of an opinion as to the prices at which shares of Sarasota common stock or shares of BancGroup common stock will trade following the announcement of the Merger or the actual value of the shares of common stock of the combined company when issued pursuant to the Merger, or the prices at which the shares of common stock of the combined company will trade following the completion of the Merger.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of KBW, Sarasota and BancGroup. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the Sarasota Board in making its determination to approve the Merger Agreement and the Merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Sarasota Board or management of Sarasota with respect to the fairness of the merger consideration.

The following is a summary of the material analyses presented by KBW to the Sarasota Board on June 25, 2003 in connection with its June 25, 2003 oral opinion. The summary is not a complete description of the analyses underlying the KBW opinion or the presentation made by KBW to the Sarasota Board, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial

analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made

Table of Contents

qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

Transaction Summary. KBW calculated the merger consideration to be paid as a multiple of Sarasota's book value per share and last twelve months' earnings and as a Core Deposit Premium. Core Deposit Premium equals the difference between the aggregate merger consideration and Sarasota's tangible equity divided by total domestic, non-brokered deposits less time deposit accounts greater than \$100,000. The merger consideration was based on a fixed deal value of \$39.9 million for 100% of Sarasota shares. Based on these assumptions and subject to the pricing formulas contained in the Merger Agreement, this analysis indicated that Sarasota shareholders would receive BancGroup stock worth \$62.11 or a combination of BancGroup stock and cash worth \$62.11 for each share of Sarasota common stock held, and that this amount would represent 299.1% of Sarasota's book value per share, a core deposit premium of 30.1% and a multiple of price to latest twelve months' earnings of 21.6 times. These results were based on Sarasota's stated book value per share, core deposits and latest twelve months earnings as of March 31, 2003 of \$20.77, \$91.8 million and \$1.8 million, respectively.

Selected Transaction Analysis. KBW reviewed certain financial data related to a set of comparable regional bank transactions announced since December 31, 2001 with deal values between \$30 million and \$100 million (13 transactions).

KBW compared multiples of price to various factors for the BancGroup-Sarasota Merger to the same multiples for the comparable group's mergers at the time those mergers were announced. The results were as follows:

Comparable Transactions:

| | <u>Median</u> | <u>Low</u> | <u>High</u> | <u>BancGroup / Sarasota Merger</u> |
|--|---------------|------------|-------------|--|
| Price / Stated Book Value | 209.9% | 165.7% | 367.5% | 299.1% |
| Core Deposit Premium | 18.1 | 11.8 | 38.0 | 30.1 |
| Price / Latest Twelve Months' Earnings | 20.9x | 14.5x | 27.2x | 21.6x |

KBW also analyzed the financial data for the period ended March 31, 2003 for Sarasota and reporting period prior to the announcement of each transaction for each target in the Selected Transactions Analysis. The results were as follows:

Comparable Targets:

| | <u>Median</u> | <u>Low</u> | <u>High</u> | <u>Sarasota</u> |
|-----------------|---------------|------------|-------------|-----------------|
| Equity / Assets | 9.06% | 6.58% | 14.31% | 7.44% |

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| | | | | |
|--|-------|------|-------|-------|
| Non-Performing Assets / Assets | 0.60 | 0.08 | 2.32 | 0.64 |
| Return on Average Assets (Year-to-Date Annualized) | 1.12 | 0.45 | 2.07 | 1.19 |
| Return on Average Equity (Year-to-Date Annualized) | 11.96 | 4.86 | 22.20 | 15.70 |
| Efficiency Ratio (Latest Twelve Months) | 65 | 36 | 78 | 47 |

No company or transaction used as a comparison in the above analysis is identical to BancGroup, Sarasota or the Merger. Accordingly, an analysis of these results is not purely mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the value of the companies to which they are being compared.

Table of Contents

Discounted Cash Flow Analysis. Using a discounted cash flow analysis, KBW estimated the present value of the future stream of dividends that Sarasota could produce over the next five years, under various circumstances, assuming the company performed in accordance with the earnings forecasts of management. KBW then estimated the terminal values for Sarasota stock at the end of the period by applying multiples ranging from 12.0x to 16.0x projected earnings in year five. The dividend streams and terminal values were then discounted to present values using different discount rates (ranging from 10.0% to 14.0%) chosen to reflect different assumptions regarding the required rates of return to holders or prospective buyers of Sarasota common stock. This discounted dividend analysis indicated reference ranges of between \$42.05 and \$63.87 per share of Sarasota common stock. These values compare to the consideration offered by BancGroup to Sarasota in the Merger of \$62.11 per share of Sarasota common stock.

Relative Stock Price Performance. KBW also analyzed the price performance of BancGroup common stock from December 31, 2000 to June 20, 2003 and compared that performance to the performance of the Philadelphia Exchange/Keefe, Bruyette & Woods Bank Index (Keefe Bank Index) over the same period. The Keefe Bank Index is a market cap weighted price index composed of 24 major commercial and savings banks stocks. The Keefe Bank Index is traded on the Philadelphia Exchange under the symbol BKX . This analysis indicated the following cumulative changes in price over the period:

| | |
|------------------|-------|
| BancGroup | 42.4% |
| Keefe Bank Index | (1.7) |

Selected Peer Group Analysis. KBW compared the financial performance and market performance of BancGroup to those of a group of comparable holding companies. The comparisons were based on:

various financial measures including:

earnings performance,

operating efficiency,

capital, and

asset quality; and

various measures of market performance including:

price to book value,

price to earnings, and

dividend yield.

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To perform this analysis, KBW used the financial information as of and for the quarter ended March 31, 2003 and market price information as of June 24, 2003. The 11 companies in the peer group were BancorpSouth, Inc., Compass Bancshares, Inc., F.N.B. Corporation, First Citizens BancShares, Inc., First Tennessee National Corporation, Hibernia Corporation, National Commerce Financial Corporation, The South Financial Group, Inc., Synovus Financial Corp., Trustmark Corporation and Whitney Holding Corporation. KBW has adjusted throughout its analysis the financial data to exclude certain non-recurring income and expenses and any extraordinary items.

Table of Contents

KBW's analysis showed the following concerning BancGroup's financial performance:

Selected Peer Group:

| | <u>Median</u> | <u>Low</u> | <u>High</u> | <u>BancGroup</u> |
|---|---------------|------------|-------------|------------------|
| Return on Average Equity (GAAP) | 15.80% | 7.47% | 27.34% | 13.17% |
| Return on Average Assets (GAAP) | 1.39 | 0.61 | 2.04 | 0.93 |
| Return on Average Tangible Equity (Cash) | 20.43 | 8.62 | 31.23 | 17.58 |
| Return on Average Tangible Assets (Cash) | 1.43 | 0.63 | 2.08 | 0.96 |
| Net Interest Margin | 4.21 | 3.32 | 4.63 | 3.42 |
| Efficiency Ratio | 60 | 51 | 75 | 58 |
| Leverage Ratio | 8.24 | 6.04 | 10.56 | 6.58 |
| Equity / Assets | 8.12 | 7.10 | 12.41 | 6.85 |
| Loans / Deposits | 90 | 73 | 111 | 126 |
| Non-Performing Assets / Assets | 0.43 | 0.20 | 0.78 | 0.50 |
| Loan Loss Reserve / Non-Performing Assets | 196 | 99 | 451 | 175 |
| Loan Loss Reserve / Total Loans | 1.42 | 0.87 | 1.77 | 1.17 |

KBW's analysis showed the following concerning BancGroup's market performance:

Selected Peer Group:

| | <u>Median</u> | <u>Low</u> | <u>High</u> | <u>BancGroup</u> |
|--|---------------|------------|-------------|------------------|
| Price / Stated Book Value Per Share | 193% | 106% | 320% | 158% |
| Price / Tangible Book Value Per Share | 273 | 120 | 361 | 207 |
| Price / 2003 GAAP Estimated Earnings Per Share | 13.3x | 11.0x | 17.1x | 11.6x |
| Price / 2003 Cash Estimated Earnings Per Share | 12.8 | 10.9 | 17.0 | 11.3 |
| Price / 2004 GAAP Estimated Earnings Per Share | 12.2 | 9.9 | 15.3 | 11.1 |
| Price / 2004 Cash Estimated Earnings Per Share | 11.9 | 9.8 | 15.2 | 10.9 |
| Dividend Yield | 3.1% | 1.1% | 3.7% | 4.1% |

KBW also compared the financial performance of Sarasota to those of a group of comparable banks. The comparisons were based on:

various financial measures including:

earnings performance,

operating efficiency,

capital, and

asset quality.

To perform this analysis, KBW used the financial information as of and for the quarter ended December 31, 2002 for the comparable banks and March 31, 2003 for Sarasota. The 14 companies in the peer group included select banks in Florida with assets between \$200 million and \$300 million. KBW has adjusted throughout its analysis the financial data to exclude certain non-recurring income and expenses and any extraordinary items.

Table of Contents

KBW's analysis showed the following concerning Sarasota's financial performance:

Selected Peer Group:

| | <u>Median</u> | <u>Low</u> | <u>High</u> | <u>Sarasota</u> |
|---|---------------|------------|-------------|-----------------|
| Return on Average Equity (GAAP) | 9.69% | 3.02% | 18.70% | 15.70% |
| Return on Average Assets (GAAP) | 1.05 | 0.13 | 1.36 | 1.19 |
| Return on Average Tangible Equity (Cash) | 10.13 | 3.02 | 18.70 | 15.70 |
| Return on Average Tangible Assets (Cash) | 1.05 | 0.13 | 1.36 | 1.19 |
| Net Interest Margin | 4.37 | 2.11 | 5.65 | 3.91 |
| Efficiency Ratio | 63 | 49 | 91 | 47 |
| Leverage Ratio | 8.20 | 5.46 | 14.24 | 7.42 |
| Equity / Assets | 7.95 | 3.86 | 14.02 | 7.44 |
| Loans / Deposits | 77 | 27 | 88 | 92 |
| Non-Performing Assets / Assets | 0.30 | 0.07 | 2.53 | 0.64 |
| Loan Loss Reserve / Non-Performing Assets | 106 | 29 | 731 | 163 |
| Loan Loss Reserve / Total Loans | 1.21 | 0.62 | 1.50 | 1.42 |

Contribution Analysis. KBW analyzed the relative contribution of each of Sarasota and BancGroup to the pro forma balance sheet and income statement items of the combined entity, including assets, gross loans, deposits, equity, tangible equity, latest twelve months' earnings and estimated 2004 earnings. This analysis excluded any purchase accounting adjustments. The pro forma ownership analysis assumed 100% of the aggregate deal value is in the form of BancGroup stock and was based on BancGroup's closing price of \$13.75 on June 24, 2003. The results of KBW's analysis are set forth in the following table:

| <u>Category</u> | <u>BancGroup</u> | <u>Sarasota</u> |
|---------------------------------------|------------------|-----------------|
| Assets | 99.0% | 1.0% |
| Gross Loans | 99.0 | 1.0 |
| Deposits | 98.6 | 1.4 |
| Equity | 98.9 | 1.1 |
| Tangible Equity | 98.5 | 1.5 |
| Latest Twelve Months' Earnings (GAAP) | 98.7 | 1.3 |
| 2004 Estimated Earnings (GAAP) | 98.5 | 1.5 |
| Estimated Pro Forma Ownership | 97.9 | 2.1 |

Financial Impact Analysis. KBW performed pro forma merger analyses that combined projected income statement and balance sheet information. Assumptions regarding the accounting treatment, acquisition adjustments and cost savings were used to calculate the financial impact that the Merger would have on certain projected financial results of the pro forma company. This analysis indicated that the Merger is expected to be dilutive to BancGroup's estimated GAAP and cash earnings per share in 2004 and 2005. This analysis was based on First Call's 2004 published earnings estimates for BancGroup and estimated cost savings equal to 14.0% of Sarasota's projected non-interest expenses. BancGroup's 2005 earnings and Sarasota's 2004 and 2005 earnings were projected by KBW. For all of the above analyses, the actual results achieved by the pro forma company following the Merger will vary from the projected results and the variations may be material.

Other Analyses. KBW reviewed the relative financial and market performance of BancGroup and Sarasota to a variety of relevant industry peer groups and indices. KBW also reviewed earnings estimates, historical stock performance, stock liquidity and research coverage for BancGroup.

The Sarasota Board has retained KBW as an independent contractor to act as financial advisor to Sarasota regarding the Merger. As part of its investment banking business, KBW is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings,

Table of Contents

competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, KBW may, from time to time, purchase securities from, and sell securities to, Sarasota and BancGroup. As a market maker in securities, KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of Sarasota and BancGroup for KBW's own account and for the accounts of its customers.

Sarasota and KBW have entered into an agreement relating to the services to be provided by KBW in connection with the Merger. Sarasota has agreed to pay KBW at the time of closing a cash fee equal to 1.0% of the market value of the aggregate consideration offered in exchange for the outstanding shares of common stock of Sarasota in the transaction. Pursuant to the KBW engagement agreement, Sarasota also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify against certain liabilities, including liabilities under the federal securities laws.

Recommendation of the Board of Directors of Sarasota

The Board of Directors of Sarasota has determined that the Agreement is in the best interest of Sarasota shareholders. THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS OF SARASOTA VOTE IN FAVOR OF THE APPROVAL AND ADOPTION OF THE AGREEMENT.

BancGroup's Reasons for the Merger

The Executive Committee of the Board of Directors of BancGroup has unanimously approved the Merger and the Agreement, and BancGroup's Board of Directors has ratified such approval. The Merger will allow BancGroup to expand its banking operations in the Sarasota market area. BancGroup currently operates a commercial bank with 106 branches in Florida. The Board of Directors of BancGroup believes that the combination with Sarasota is consistent with its current expansion strategy.

In approving the Merger and the Agreement, the Board of Directors of BancGroup took into account: (i) the financial performance and condition of Sarasota and Sarasota Bank (the "Bank"), including its capital and asset quality; (ii) similarities in the philosophies of BancGroup and Sarasota, including the commitment of Sarasota to delivering high quality personalized financial services to its customers; and (iii) the extensive knowledge of, and experience in, the Sarasota, Florida market area that has been demonstrated by the management of Sarasota.

Interests of Certain Persons in the Merger

Certain members of the management and Boards of Directors of Sarasota and the Bank may be deemed to have certain interests in the Merger in addition to their interest as shareholders of Sarasota generally. The Board of Directors of Sarasota was aware of these interests and considered them, among other matters, in unanimously approving the Agreement.

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Cash-out of Options. As of the date of this Proxy Statement-Prospectus, Sarasota had outstanding options (the Sarasota Options) which entitle the holders thereof to acquire up to 64,216 shares of Sarasota common stock. Each holder of a Sarasota Option has agreed with BancGroup to exchange his or her Sarasota Options for a cash payment equal to \$62.11 multiplied by the number of shares of Sarasota common stock that would have issued if such Sarasota Option had been exercised less the aggregate exercise price. See The Merger Treatment of Sarasota Options.

Employees. BancGroup has also entered into an employment agreement with Christine L. Jennings. This employment agreement only becomes effective upon the consummation of the Merger. Ms. Jennings

Table of Contents

employment agreement provides that she will, among other things, act as President of Colonial Bank's Sarasota County operation for a base salary of \$175,000. This agreement also provides that Ms. Jennings will receive a transition fee of \$48,000 so long as she is still employed by Colonial Bank one year after the completion of the Merger. Additionally, Ms. Jennings will receive a car allowance of \$700 per month and reimbursement for civic and/or social clubs up to \$6,300 per year. Ms. Jennings' employment agreement also makes her eligible to receive options to purchase 10,000 shares of BancGroup common stock. The exercise price for such options will be the market value of BancGroup common stock on the date of grant. These options will vest ratably over a five year period. The term of the employment agreement is two years beginning on the Effective Date. BancGroup may terminate the employment agreement prior to that date by paying Ms. Jennings a cash payment equal to the total salary that would otherwise be paid for the remainder of the term of the employment agreement. The employment agreement also provides that Ms. Jennings will not compete against BancGroup in the Florida county of Sarasota County, or any county contiguous to Sarasota county for two years following the termination of the employment agreement.

BancGroup has also entered into an employment agreement with Paul D. Thatcher. This employment agreement only becomes effective upon the consummation of the Merger. Mr. Thatcher's employment agreement provides among other things, for a base salary of \$107,640, and a car allowance of \$500 per month. Mr. Thatcher's employment agreement also makes him eligible to receive options to purchase 2,500 shares of BancGroup common stock. The exercise price for such options will be the market value of BancGroup common stock on the date of grant. These options will vest ratably over a five year period. The term of the employment agreement is one year beginning on the Effective Date. BancGroup may terminate the employment agreement prior to that date by paying Mr. Thatcher a cash payment equal to the total salary that would otherwise be paid for the remainder of the term of the employment agreement. The employment agreement also provides that Mr. Thatcher will not compete against BancGroup in the Florida county of Sarasota County, or any county contiguous to Sarasota county for two years following the termination of the employment agreement.

Pursuant to their currently existing employment agreements with Sarasota, Ms. Jennings and Mr. Thatcher are expected to receive cash payments of \$450,000 and \$161,460, respectively, at the closing of the merger.

As an inducement to stay employed with Sarasota Bank at least until the closing of the Merger, certain employees of Sarasota Bank may be paid a bonus on the Effective Date. The aggregate amount of such bonuses will not exceed \$100,000.

On the Effective Date, all employees of Sarasota will, at BancGroup's option, either become employees of BancGroup or its subsidiaries or be entitled to severance benefits in accordance with Colonial Bank's severance policy. All employees of Sarasota who become employees of BancGroup or its subsidiaries on the Effective Date will be entitled, to the extent permitted by applicable law, to participate in all benefit plans of BancGroup to the same extent as BancGroup's employees.

Indemnification. Under the Agreement, BancGroup has agreed for a period of six years to indemnify the directors and executive officers of Sarasota against certain claims and liabilities arising out of or pertaining to matters existing or occurring at or prior to the Effective Date, to the extent that Sarasota would have been authorized under Florida law, or under its Articles of Incorporation or Bylaws, to indemnify such persons.

Affiliate Agreements. Sarasota's directors have entered into affiliate agreements with BancGroup regarding various issues associated with the merger. These agreements provide that the director will, among other things:

agree to vote his or her shares for the merger;

not distribute BancGroup common stock issued in connection with the merger except in accordance with certain rules of the SEC; and

Table of Contents

support the business of Colonial Bank after the merger.

Additionally, Sarasota's directors who are not also employees of Sarasota agreed generally not to compete with Colonial Bank for a period of two years after the effective date of the Merger and will be entitled to receive cash payments ranging from \$10,000 to \$55,000 for these non-compete agreements. The aggregate amount of such payments is \$400,000.

Conversion of Sarasota Common Stock

The Agreement provides for the Merger of Sarasota with and into BancGroup, with BancGroup to be the surviving corporation. On the Effective Date, each share of Sarasota common stock outstanding and held by the Sarasota shareholders (except shares as to which dissenters' rights are perfected) will be converted by operation of law and without any action by any holder thereof into shares of BancGroup common stock (the Merger Consideration). If the Market Value is less than \$13.31, then each share of Sarasota common stock outstanding at the Effective Date shall be converted into 4.6664 shares of BancGroup common stock plus the right to receive a cash payment (without interest) of \$13.31 minus the Market Value for each share of Sarasota common stock times 4.6664. If the Market Value is equal to or greater than \$13.31, then each share of Sarasota common stock shall be converted into the number of shares of BancGroup common stock equal to \$62.11 divided by the Market Value. The Market Value shall be the average of the closing prices of the BancGroup common stock as reported by the NYSE on each of the ten trading days ending on the trading day five trading days immediately preceding, and not including the Effective Date. The appropriate ratio that is used to calculate the Merger Consideration based upon the Market Value as set forth above is referred to as the Exchange Ratio. Accordingly, based upon the 589,000 shares of Sarasota common stock outstanding as of the date of this Proxy Statement-Prospectus, and assuming the exercise of no Sarasota Options and that the Market Value of BancGroup common stock is equal to \$ (which was the average closing price for the ten trading days ending on , 2003), the number of shares of BancGroup common stock that may be issued in the Merger would be approximately million shares.

No fractional shares of BancGroup common stock will be issued in connection with the Merger. Each shareholder of Sarasota otherwise entitled to receive a fractional share of BancGroup common stock will receive instead a cash payment (without interest) equal to such fractional interest multiplied by the Market Value.

The average closing price of BancGroup common stock for the ten trading days ending on , 2003 was \$. Therefore, upon the Effective Date, if the Market Value is equal to \$, then each share of Sarasota common stock will be converted into shares of BancGroup common stock. As a result, a shareholder of Sarasota who owns 500 shares of Sarasota common stock would be entitled to receive shares of BancGroup common stock (500 multiplied by), plus cash in lieu of the fractional interest. Shareholders are advised to obtain current market quotations for BancGroup common stock. The Market Value of BancGroup common stock at the Effective Date, or on the date on which certificates representing such shares are received by Sarasota shareholders, may be higher or lower than the market price of BancGroup common stock as of the Record Date or at the time of the Special Meeting.

If the merger is not completed prior to the record date for BancGroup's regular quarterly cash dividend that is anticipated to be declared on October 15, 2003, with a record date of October 24, 2003, if such dividend is actually declared, then after the completion of the merger, each Sarasota shareholder will receive a cash payment equal to the per share amount of such dividend multiplied by the number of shares of BancGroup common stock that such shareholder receives after the completion of the merger.

The Agreement provides that if, prior to the Effective Date, BancGroup common stock is changed into a different number of shares or a different class of shares by reason of any recapitalization or reclassification, stock dividend, combination, stock split, or reverse stock split of the BancGroup common stock, an appropriate and proportionate adjustment will be made in the number of shares of BancGroup common stock into

which the Sarasota common stock will be converted in the Merger.

Table of Contents

Surrender of Sarasota Common Stock Certificates

On the Effective Date and subject to the conditions described at Conditions to Consummation of the Merger, Sarasota shareholders (except those shareholders who perfect dissenters' rights under applicable law) will automatically, and without further action by such shareholders or by BancGroup, become owners of BancGroup common stock, as described herein. Outstanding certificates representing shares of the Sarasota common stock will represent shares of BancGroup common stock. Thereafter, upon surrender of the certificates formerly representing shares of Sarasota common stock, the holders will be entitled to receive certificates for the BancGroup common stock. Dividends on the shares of BancGroup common stock will accumulate without interest and will not be distributed to any former shareholder of Sarasota unless and until such shareholder surrenders for cancellation his certificate for Sarasota common stock. SunTrust Bank, transfer agent for BancGroup common stock, will act as the Exchange Agent with respect to the shares of Sarasota common stock surrendered in connection with the Merger. The Exchange Agent will mail a detailed explanation of these arrangements to Sarasota shareholders promptly following the Effective Date. **Stock certificates should not be sent to the Exchange Agent until such notice is received.**

Treatment of Sarasota Options

Cash-out of Options. As of the date of this Proxy Statement-Prospectus, Sarasota had granted options to three employees (the Sarasota Options), which entitle the holders thereof to acquire up to 64,216 shares of Sarasota common stock. Christine L. Jennings holds options to purchase 36,715 shares, Paul D. Thatcher holds options to purchase 25,001 shares and Susan Flynn holds options to purchase 2,500 shares of Sarasota common stock. Each holder of Sarasota Options has agreed with BancGroup to exchange his or her Sarasota Options for the right to receive a cash payment on the Effective Date. The amount of such cash payment is equal to \$62.11 multiplied by the number of shares of Sarasota common stock that would have been issued if such Sarasota Options had been exercised less the aggregate exercise price. Pursuant to these agreements, Christine L. Jennings, Paul D. Thatcher and Susan Flynn are expected to receive \$1,867,228, \$1,248,468 and \$125,025 respectively, at the completion of the Merger in exchange for their Sarasota options.

The Sarasota Options are issuable pursuant to the Sarasota Bancorporation 1998 Stock Option Plan, (the Option Plan). The Option Plan is not qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, nor subject to the Employee Retirement Income Security Act of 1974. Sarasota Options are not transferable except under the laws of descent and distribution or the prior approval of the Sarasota Board of Directors.

The Sarasota Options are incentive stock options under Section 422 of the Internal Revenue Code. Upon exercise of such an option, ordinary income would not normally result to the optionee even if the price of the options is lower than the fair market value of the stock subject to the option at the date of exercise provided certain timing requirements are met. However, income could be recognized for alternative minimum tax purposes upon a exercise. No income for regular federal income tax purposes would be realized until the holder actually sells the stock obtained through the exercise of incentive stock options as long as such stock is held long enough. The foregoing statements concerning federal income tax treatment are necessarily general and may not apply in a particular instance. Holders of Sarasota options should contact their own professional tax advisors for advice concerning their particular tax situation.

Other Matters. It is not anticipated that BancGroup will make any reports to option holders regarding the amount or status of Sarasota Options held. Option holders may obtain such information from BancGroup at the address given above on page 7 of this Proxy Statement-Prospectus.

Certain Federal Income Tax Consequences

The Merger is intended to qualify as a reorganization for federal income tax purposes under Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the Code). The obligation of each of Sarasota and BancGroup to consummate the Merger is conditioned on the receipt of an opinion from PricewaterhouseCoopers LLP, BancGroup's independent public accountant, to the effect that the Merger will

Table of Contents

constitute such a reorganization. BancGroup has received this opinion. In delivering its opinion, PricewaterhouseCoopers LLP received and relied upon certain representations contained in certificates of officers of BancGroup and Sarasota and certain other information, data, documentation and other materials as it deemed necessary. The tax opinion is based upon customary assumptions contained therein, including the assumption that Sarasota has no knowledge of any plan or intention on the part of the Sarasota shareholders to sell or dispose of BancGroup common stock that would reduce their holdings to the number of shares having in the aggregate a fair market value of less than 50% of the total fair market value of the Sarasota common stock outstanding immediately upon consummation of the Merger.

Neither Sarasota nor BancGroup intends to seek a ruling from the IRS as to the federal income tax consequences of the Merger. Shareholders of Sarasota should be aware that the opinion from PricewaterhouseCoopers LLP will not be binding on the IRS or the courts. Shareholders of Sarasota also should be aware that some of the tax consequences of the Merger are governed by provisions of the Code as to which there are no final regulations and little or no judicial or administrative guidance. There can be no assurance that future legislation, administrative rulings, or court decisions will not adversely affect the accuracy of the statements contained herein.

The tax opinion states that, provided the assumptions stated therein are satisfied, the Merger will constitute a reorganization as defined in Section 368(a) of the Code, and the following federal income tax consequences will result to Sarasota shareholders who exchange their shares of Sarasota common stock for shares of BancGroup common stock:

- (i) No gain or loss will be recognized by BancGroup or Sarasota as a result of the Merger;

- (ii) The Sarasota shareholders will not recognize any gain related to BancGroup common stock received in exchange for their shares of Sarasota common stock. The Sarasota shareholders will recognize gain, but in an amount not in excess of the fair market value of the consideration, other than BancGroup common stock, received in exchange for their shares of Sarasota common stock. This gain may be characterized as capital gain or ordinary income.

- (iii) The tax basis of the BancGroup common stock received by each Sarasota shareholder will equal the tax basis of such shareholder's Sarasota shares surrendered in the Merger, decreased by the fair market value of the consideration (other than BancGroup common stock) and the amount of cash received by such Sarasota shareholder in the Merger and increased by (i) the amount of gain, if any, recognized by such Sarasota shareholder on the receipt of such other consideration and (ii) the amount, if any, which is treated as a dividend;

- (iv) The holding period of the BancGroup common stock received by the Sarasota shareholders will include the holding period during which the Sarasota common stock surrendered in exchange therefore was held, provided that such stock is held as a capital asset in the hands of the Sarasota shareholders on the date of the exchange under Internal Revenue Code Section 1223(1); and

- (v) The cash received by a Sarasota shareholder in lieu of a fractional share interest of BancGroup common stock will be treated as having been received as a distribution in full payment in exchange for the fractional share interest of BancGroup stock which he or she would otherwise be entitled to receive and will qualify for either capital gain or loss treatment, provided that such stock is held as a capital asset in the hands of the Sarasota shareholder on the date of the exchange under Internal Revenue Code Section 1223(1).

Each Sarasota shareholder will be required to report on such shareholder's federal income tax return for the fiscal year of such shareholder in which the Merger occurs that such shareholder has received BancGroup common stock in a reorganization.

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO THE SHAREHOLDERS OF SARASOTA, TO SARASOTA AND TO BANGROUP AND DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL POTENTIAL TAX EFFECTS OF THE MERGER. THE DISCUSSION DOES NOT ADDRESS THE

Table of Contents

TAX CONSEQUENCES THAT MAY BE RELEVANT TO A PARTICULAR SHAREHOLDER SUBJECT TO SPECIAL TREATMENT UNDER CERTAIN FEDERAL INCOME TAX LAWS, SUCH AS DEALERS IN SECURITIES, BANKS, INSURANCE COMPANIES, TAX-EXEMPT ORGANIZATIONS, NON-UNITED STATES PERSONS, STOCKHOLDERS WHO DO NOT HOLD THEIR SHARES OF SARASOTA COMMON STOCK AS CAPITAL ASSETS WITHIN THE MEANING OF SECTION 1221 OF THE CODE, AND SHAREHOLDERS WHO ACQUIRED THEIR SHARES OF SARASOTA COMMON STOCK PURSUANT TO THE EXERCISE OF OPTIONS OR OTHERWISE AS COMPENSATION, NOR ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCALITY OR FOREIGN JURISDICTION; MOREOVER, THE TAX CONSEQUENCES TO HOLDERS OF SARASOTA OPTIONS ARE NOT DISCUSSED. THE DISCUSSION IS BASED UPON THE CODE, TREASURY REGULATIONS THEREUNDER AND ADMINISTRATIVE RULINGS AND COURT DECISIONS AS OF THE DATE HEREOF. ALL OF THE FOREGOING IS SUBJECT TO CHANGE, AND ANY SUCH CHANGE COULD AFFECT THE CONTINUING VALIDITY OF THIS DISCUSSION. SARASOTA SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE MERGER TO THEM.

Other Possible Consequences

If the Merger is consummated, the shareholders of Sarasota, a Florida corporation, will become shareholders of BancGroup, a Delaware business corporation. For a discussion of the differences, if any, in the rights, preferences, and privileges attaching to Sarasota common stock as compared with BancGroup common stock, see Comparative Rights of Stockholders.

Conditions to Consummation of the Merger

The parties' respective obligations to consummate the Merger are subject to the satisfaction (or waiver, to the extent permitted by law) of various conditions set forth in the Agreement.

The obligations of Sarasota and BancGroup to consummate the Merger are conditioned upon, among other things, (i) the approval of the Agreement by the holders of at least a majority of the outstanding shares of Sarasota common stock; (ii) the notification to, or approval of the Merger by, the Board of Governors of the Federal Reserve System, and the Florida Department of Banking and Finance; (iii) the absence of pending or threatened litigation with a view to restraining or prohibiting consummation of the Merger or to obtain divestiture, rescission or damages in connection with the Merger; (iv) the absence of any investigation by any governmental agency which might result in any such proceeding; (v) consummation of the Merger no later than March 31, 2004; and (vi) receipt of opinions of counsel regarding certain matters. The Agreement permits the parties to waive, in writing, conditions for the consummation of the Merger other than those required by law.

Table of Contents

The obligation of Sarasota to consummate the Merger is further subject to several other conditions, including: (i) the absence of any material adverse change in the financial condition or affairs of BancGroup; (ii) the shares of BancGroup common stock to be issued under the Agreement shall have been approved for listing on the NYSE; and (iii) the accuracy in all material respects of the representations and warranties of BancGroup contained in the Agreement and the performance by BancGroup of all of its covenants and agreements under the Agreement.

The obligation of BancGroup to consummate the Merger is subject to several other conditions, including: (i) the absence of any material adverse change in the financial condition or affairs of Sarasota; (ii) the number of shares as to which holders of Sarasota common stock exercise dissenters' rights not exceeding 10% of the outstanding shares of Sarasota common stock; (iii) the accuracy in all material respects of the representations and warranties of Sarasota contained in the Agreement, (iv) the performance by Sarasota of all of its covenants and agreements under the Agreement, including certain restrictions on Sarasota's conduct of its business; and (v) the receipt of the consent to the Merger and assignment of lease of the lessor of Sarasota's office.

It is anticipated that the foregoing conditions, as well as certain other conditions contained in the Agreement, such as the receipt of certificates of officers of each party as to compliance with the Agreement and satisfaction of each party of all representations, warranties and covenants, will either be satisfied or waived by the parties. The Agreement provides that each of Sarasota and BancGroup may waive all conditions to its respective obligation to consummate the Merger, other than the receipt of the requisite approvals of regulatory authorities and approval of the Agreement by the shareholders of Sarasota. In making any decision regarding a waiver of one or more conditions to consummation of the Merger or an amendment of the Agreement, the Boards of Directors of Sarasota and BancGroup would be subject to the fiduciary duty standards imposed upon such boards by relevant law that would require such boards to act in the best interests of their respective shareholders.

Amendment or Termination of Agreement

To the extent permitted by law, the Agreement may be amended by a subsequent writing signed by each of the parties upon the approval of the Boards of Directors of each of the parties. However, after approval of the Agreement by the holders of Sarasota common stock, no amendment decreasing the consideration to be received by Sarasota shareholders may be made without the further approval of such shareholders. The Agreement may be terminated at any time prior to or on the Effective Date, whether before or after approval of the Agreement by the shareholders of Sarasota, by the mutual consent of the respective Boards of Directors of Sarasota and BancGroup or by the Board of Directors of either BancGroup or Sarasota under certain circumstances including, but not limited to: (i) a material breach which cannot or has not been cured within 30 days of notice of such breach being given by the non-breaching party, (ii) failure to consummate the transactions contemplated under the Agreement by March 31, 2004, provided that such failure to consummate is not caused by any breach of the Agreement by the party electing to terminate and (iii) if Sarasota enters into a binding agreement with any third party to merge with, or sell control to, that third party. In that event, BancGroup will have the right to receive a payment of \$2,500,000 from Sarasota or its acquiror.

Commitment with Respect to Other Offers

Until the earlier of the Effective Date or, subject to certain limitations, the termination of the Agreement, neither Sarasota nor any of its directors or officers (or any person representing any of the foregoing) may solicit or encourage inquiries or proposals with respect to, furnish any information relating to or participate in any negotiations or discussions concerning, any acquisition or purchase of all or of a substantial portion of the assets of, or of a substantial equity interest in, Sarasota or any business combination involving Sarasota (collectively, an Acquisition Proposal) other than as contemplated by the Agreement. Sarasota is required to notify BancGroup immediately if any such inquiries or proposals are received by Sarasota, if any such information is requested from Sarasota, or if any such negotiations or discussions are sought to be initiated with Sarasota. Sarasota is required to instruct its officers, directors, agents or affiliates or their subsidiaries to refrain from doing any of the

