

BANCORPSOUTH INC
Form 10-Q
August 05, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 001-12991

BANCORPSOUTH, INC.
(Exact name of registrant as specified in its charter)

Mississippi
(State or other jurisdiction of incorporation or organization)

64-0659571
(I.R.S. Employer Identification No.)

One Mississippi Plaza, 201 South Spring
Street Tupelo, Mississippi
(Address of principal executive offices)

38804
(Zip Code)

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

NOT APPLICABLE
(Former name, former address, and former fiscal year, if changed since last report)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 1, 2011, the registrant had outstanding 83,488,963 shares of common stock, par value \$2.50 per share.

BANCORPSOUTH, INC.
TABLE OF CONTENTS

PART I.	Financial Information		Page
	ITEM 1.	Financial Statements	
		Consolidated Balance Sheets June 30, 2011 and 2010 (Unaudited) and December 31, 2010	3
		Consolidated Statements of Operations (Unaudited) Three Months and Six Months Ended June 30, 2011 and 2010	4
		Consolidated Statements of Cash Flows (Unaudited) Six Months Ended June 30, 2011 and 2010	5
		Notes to Consolidated Financial Statements (Unaudited)	6
	ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
	ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	67
	ITEM 4.	Controls and Procedures	67
PART II.	Other Information		
	ITEM 1A.	Risk Factors	68
	ITEM 6.	Exhibits	68

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Report may not be based on historical facts and are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as “anticipate,” “assume,” “believe,” “estimate,” “expect,” “might,” “will,” “intend,” “indicated,” “could,” or “would,” or future or conditional verb tenses, and variations or negatives of these terms. These forward-looking statements include, without limitation, those relating to net interest revenue, estimates of fair value discount rates, fair values of available-for-sale securities, the amount of the Company’s non-performing loans and leases, credit quality, credit losses, liquidity, off-balance sheet commitments and arrangements, valuation of mortgage servicing rights, allowance and provision for credit losses, the Company’s ability to meet the challenges of the current economic cycle, continued weakness in the economic environment, early identification and resolution of credit issues, utilization of non-GAAP financial measures, the ability of the Company to collect all amounts due according to the contractual terms of loan agreements, goodwill impairment, the Company’s reserve for losses from representation and warranty obligations, the impact of recent accounting pronouncements, the Company’s foreclosure process related to mortgage loans, the impact of the Durbin Debit Interchange Amendment on the Company’s debit card revenue, the impact of the Federal Reserve’s new rules regarding overdraft payments on the Company’s service charge revenue, the resolution of non-performing loans that are collaterally dependent, real estate values, fully-indexed interest rates, interest rate risk, interest rate sensitivity, calculation of economic value of equity, concessions granted to borrowers experiencing financial difficulties, diversification of the Company’s revenue stream, liquidity needs and strategies, sources of funding, net interest margin, payment of dividends, the impact of federal and state regulatory requirements for capital on the Company’s ability to meet its cash obligations, the impact of pending litigation and the implementation and effect of remedial actions to address the material weakness in internal control over financial reporting. We caution you not to place undue reliance on the forward-looking statements contained in this report, in that actual results could differ materially from those indicated in such forward-looking statements as a result of a variety of factors. These factors include, but are not limited to, conditions in the financial markets and economic conditions generally, the soundness of other financial institutions, the availability of capital on favorable

terms if and when needed, liquidity risk, the credit risk associated with real estate construction, estimates of costs and values associated with acquisition and development loans in the Company's loan portfolio, the adequacy of the Company's allowance for credit losses to cover actual credit losses, governmental regulation and supervision of the Company's operations, the susceptibility of the Company's business to local economic conditions, the impact of recent legislation and regulations on service charges for core deposit accounts, changes in interest rates, the impact of monetary policies and economic factors on the Company's ability to attract deposits or make loans, volatility in capital and credit markets, the impact of hurricanes or other adverse weather events, risks in connection with completed or potential acquisitions, dilution caused by the Company's issuance of securities to raise capital or to acquire other banks, bank holding companies, financial holding companies and insurance agencies, restrictions on the Company's ability to declare and pay dividends, the Company's growth strategy, diversification in the types of financial services the Company offers, competition with other financial services companies, interruptions or breaches in security of the Company's information systems, the failure of certain third party vendors to perform, the Company's ability to improve its internal controls adequately, any requirement that the Company write down goodwill or other intangible assets, other factors generally understood to affect the financial results of financial services companies and other factors detailed from time to time in the Company's press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this report.

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

BANCORPSOUTH, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2011 (Unaudited)	December 31, 2010 (1)	June 30, 2010 (Unaudited)
(Dollars in thousands, except per share amounts)			
ASSETS			
Cash and due from banks	\$ 166,761	\$ 99,916	\$ 370,499
Interest bearing deposits with other banks	304,344	172,170	111,040
Held-to-maturity securities, at amortized cost	-	1,613,019	1,147,157
Available-for-sale securities, at fair value	2,560,824	1,096,062	962,692
Federal funds sold and securities purchased under agreement to resell	-	150,000	75,000
Loans and leases	9,255,879	9,376,351	9,691,623
Less: Unearned income	41,326	43,244	44,721
Allowance for credit losses	197,627	196,913	200,744
Net loans	9,016,926	9,136,194	9,446,158
Loans held for sale	70,519	93,697	95,987
Premises and equipment, net	328,075	332,890	336,645
Accrued interest receivable	55,525	61,025	63,862
Goodwill	271,297	270,097	270,097
Bank owned life insurance	197,028	194,064	190,828
Other real estate owned	151,204	133,412	67,560
Other assets	244,547	262,464	283,479
TOTAL ASSETS	\$ 13,367,050	\$ 13,615,010	\$ 13,421,004
LIABILITIES			
Deposits:			
Demand: Noninterest bearing	\$ 2,096,655	\$ 2,060,145	\$ 1,897,977
Interest bearing	4,939,553	4,931,518	4,725,457
Savings	944,993	863,034	770,112
Other time	3,327,262	3,635,324	3,827,095
Total deposits	11,308,463	11,490,021	11,220,641
Federal funds purchased and securities sold under agreement to repurchase	426,097	440,593	481,109
Short-term Federal Home Loan Bank and other short-term borrowings	703	2,727	3,500
Accrued interest payable	11,348	14,336	17,508
Junior subordinated debt securities	160,312	160,312	160,312
Long-term Federal Home Loan Bank borrowings	35,000	110,000	110,749

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Other liabilities	178,424	174,777	186,926
TOTAL LIABILITIES	12,120,347	12,392,766	12,180,745
SHAREHOLDERS' EQUITY			
Common stock, \$2.50 par value per share			
Authorized - 500,000,000 shares; Issued - 83,488,962, 83,481,737 and 83,481,738 shares, respectively			
	208,722	208,704	208,704
Capital surplus	226,362	224,976	223,922
Accumulated other comprehensive loss	6,289	(14,453)	(5,008)
Retained earnings	805,330	803,017	812,641
TOTAL SHAREHOLDERS' EQUITY	1,246,703	1,222,244	1,240,259
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 13,367,050	\$ 13,615,010	\$ 13,421,004

(1) Derived from audited financial statements.

See accompanying notes to consolidated financial statements.

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

Three months ended
June 30,
2011 2010 Six months ended
June 30,
2011 2010
(In thousands, except for per share amounts)

INTEREST REVENUE:

Loans and leases	\$ 116,892	\$ 124,621	\$ 234,250	\$ 251,577
Deposits with other banks	124	33	246	54
Federal funds sold and securities purchased under agreement to resell	35	143	166	225
Held-to-maturity securities:				
Taxable	5,066	9,363	13,080	18,778
Tax-exempt	2,291	2,412	5,638	4,873
Available-for-sale securities:				
Taxable	10,451	8,030	19,036	16,415
Tax-exempt	1,871	833	2,695	1,665
Loans held for sale	505	727	952	1,233
Total interest revenue	137,235	146,162	276,063	294,820

INTEREST EXPENSE:

Deposits:				
Interest bearing demand	6,039	9,751	12,585	19,143
Savings	810	915	1,636	1,804
Other time	16,285	21,535	33,768	43,064

Federal funds purchased and securities sold under agreement to repurchase

Federal Home Loan Bank borrowings	1,194	1,553	2,717	3,433
Junior subordinated debt	2,860	2,862	5,719	5,717
Other	-	2	2	5
Total interest expense	27,323	36,833	56,714	73,609
Net interest revenue	109,912	109,329	219,349	221,211
Provision for credit losses	32,240	62,354	85,719	105,873
Net interest revenue, after provision for credit losses	77,672	46,975	133,630	115,338

NONINTEREST REVENUE:

Mortgage lending	2,003	(2,304)	9,584	2,721
Credit card, debit card and merchant fees	11,263	9,333	21,609	18,143
Service charges	16,556	18,953	31,924	35,215
Trust income	2,850	2,707	5,984	5,294
Security gains (losses), net	10,045	(585)	10,062	712
Insurance commissions	22,941	21,666	45,490	43,334
Other	9,486	7,316	18,802	14,999

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Total noninterest revenue	75,144	57,086	143,455	120,418
NONINTEREST EXPENSE:				
Salaries and employee benefits	70,142	68,189	140,517	137,476
Occupancy, net of rental income	10,232	10,527	20,903	21,302
Equipment	5,595	5,877	11,253	11,616
Deposit insurance assessments	6,436	4,362	11,861	8,612
Prepayment penalty on FHLB borrowings	9,778	-	9,778	0
Other	34,886	31,061	72,767	61,493
Total noninterest expense	137,069	120,016	267,079	240,499
Income (loss) before income taxes	15,747	(15,955)	10,006	(4,743)
Income tax (benefit) expense	2,921	(3,395)	(2,326)	(579)
Net income (loss)	\$12,826	\$(12,560)	\$12,332	\$(4,164)
Earnings (loss) per share: Basic	\$0.15	\$(0.15)	\$0.15	\$(0.05)
Diluted	\$0.15	\$(0.15)	\$0.15	\$(0.05)
Dividends declared per common share	\$0.01	\$0.22	\$0.12	\$0.44

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2011	2010
	(In thousands)	
Operating Activities:		
Net income (loss)	\$12,332	\$(4,164)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Provision for credit losses	85,719	105,873
Depreciation and amortization	14,789	14,905
Deferred taxes	(267)	(6,732)
Amortization of intangibles	1,687	1,999
Amortization of debt securities premium and discount, net	13,936	2,418
Share-based compensation expense	1,285	898
Security gains, net	(10,062)	(712)
Net deferred loan origination expense	(4,384)	(4,561)
Excess tax benefit from exercise of stock options	(8)	(21)
Decrease in interest receivable	5,500	4,789
Decrease in interest payable	(2,988)	(2,080)
Realized gain on mortgages sold	(14,225)	(11,500)
Proceeds from mortgages sold	483,065	494,449
Origination of mortgages held for sale	(448,082)	(497,981)
Increase in bank-owned life insurance	(2,964)	(3,058)
(Increase) decrease in prepaid pension asset	(186)	21
Decrease in prepaid deposit insurance assessments	11,040	7,690
Other, net	(1,035)	(26,913)
Net cash provided by operating activities	145,152	75,320
Investing activities:		
Proceeds from calls and maturities of held-to-maturity securities	135,781	290,273
Proceeds from calls and maturities of available-for-sale securities	131,124	66,708
Proceeds from sales of available-for-sale securities	180,057	91,533
Purchases of held-to-maturity securities	(151,105)	(404,821)
Purchases of available-for-sale securities	(119,089)	(157,397)
Net decrease in short-term investments	150,000	-
Net decrease in loans and leases	20,141	43,328
Purchases of premises and equipment	(10,520)	(7,861)
Proceeds from sale of premises and equipment	1,693	73
Contingency earn-out payment	(1,200)	-
Other, net	(31)	(40)
Net cash provided by (used in) investing activities	336,851	(78,204)
Financing activities:		
Net (decrease) increase in deposits	(181,558)	542,939
Net decrease in short-term debt and other liabilities	(16,526)	(260,767)
Repayment of long-term debt	(75,000)	(22)
Issuance of common stock	110	534
Excess tax benefit from exercise of stock options	8	21
Payment of cash dividends	(10,018)	(36,727)

Edgar Filing: BANCORPSOUTH INC - Form 10-Q

Net cash (used in) provided by financing activities	(282,984)	245,978
Increase in cash and cash equivalents	199,019	243,094
Cash and cash equivalents at beginning of period	272,086	238,445
Cash and cash equivalents at end of period	\$471,105	