

AMSOUTH BANCORPORATION
Form 10-Q
May 09, 2005
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2005

Commission file number 1-7476

AmSouth Bancorporation

(Exact Name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or Organization)

63-0591257
(I.R.S. Employer
Identification No.)

AmSouth Center
1900 Fifth Avenue North
Birmingham, Alabama
(Address of principal executive offices)

35203
(Zip Code)

Edgar Filing: AMSOUTH BANCORPORATION - Form 10-Q

(205) 320-7151

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

As of April 29, 2005, AmSouth Bancorporation had 352,965,000 shares of common stock outstanding.

Table of Contents**AMSOUTH BANCORPORATION****FORM 10-Q****INDEX**

	<u>Page</u>
Part I.	
Financial Information	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets</u> March 31, 2005, December 31, 2004 and March 31, 2004	3
<u>Consolidated Statements of Earnings</u> Three months ended March 31, 2005 and 2004	4
<u>Consolidated Statements of Shareholders' Equity</u> Three months ended March 31, 2005 and 2004	5
<u>Consolidated Statements of Cash Flows</u> Three months ended March 31, 2005 and 2004	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Report of Independent Registered Public Accounting Firm</u>	13
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4. <u>Controls and Procedures</u>	29
Part II.	
Other Information	
Item 1. <u>Legal Proceedings</u>	29
Item 2. <u>Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	30
Item 6. <u>Exhibits</u>	30
<u>Signatures</u>	31
<u>Exhibit Index</u>	32

Forward-Looking Statements

Statements made in this document which are not purely historical are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, including any statements regarding descriptions of Management's plans, objectives or goals for future operations, products or services, and forecasts of its revenues, earnings or other measures of performance.

Forward-looking statements are based on current Management expectations and, by their nature, are subject to risks and uncertainties. A number of factors many of which are beyond AmSouth's control could cause actual conditions, events or results to differ materially from those described in the forward-looking statements. Such factors include, but are not limited to: the effects of previously disclosed regulatory settlements on AmSouth's branch expansion plans; the execution of AmSouth's strategic initiatives; legislation and regulation; general economic conditions, especially in the Southeast; the performance of the stock and bond markets; changes in interest rates, yield curves and interest rate spread relationships; prepayment speeds within the loan and investment security portfolios; deposit flows; the cost of funds; cost of federal deposit insurance premiums; demand for loan products; demand for financial services; competition, including a continued consolidation in the financial services industry; changes in the quality or composition of AmSouth's loan and investment portfolios including capital market inefficiencies that may affect the marketability and valuation of available-for-sale securities; changes in consumer spending and saving habits; technological changes; adverse changes in the financial performance and/or condition of AmSouth's borrowers, which could impact the repayment of such borrowers' outstanding loans; changes in accounting and tax principles, policies or guidelines and in tax laws; other economic, competitive, governmental and regulatory factors affecting AmSouth's operations, products, services and prices; the effects of weather and natural disasters such as hurricanes; unexpected judicial actions and developments; results of investigations, examinations and

Edgar Filing: AMSOUTH BANCORPORATION - Form 10-Q

reviews of regulatory and law enforcement authorities; the outcome of litigation, which is inherently uncertain and depends on the findings of judges and juries; the impact on AmSouth's businesses, as well as the risks set forth above, of various domestic or international military or terrorist activities or conflicts; and AmSouth's success at managing the risks involved in the foregoing.

Other such factors are discussed in the Management's Discussion and Analysis section of this report, including, but not limited to, the factors discussed in Earnings Outlook on page 22.

Forward-looking statements speak only as of the date they are made. AmSouth does not undertake a duty to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****AMSOUTH BANCORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	March 31	December 31	March 31
	2005	2004	2004
	<u> </u>	<u> </u>	<u> </u>
(Dollars in thousands)			
ASSETS			
Cash and due from banks	\$ 1,110,764	\$ 966,993	\$ 1,074,116
Trading securities	33,185	1,883	552
Available-for-sale securities	6,378,267	6,322,665	6,371,254
Held-to-maturity securities (market value of \$6,111,379, \$6,199,451 and \$6,206,159, respectively)	6,193,235	6,188,010	6,139,369
Loans held for sale	150,888	103,273	234,842
Loans	33,717,548	33,512,398	30,613,623
Less: Allowance for loan losses	366,836	366,774	382,450
Unearned income	692,111	711,061	719,900
	<u> </u>	<u> </u>	<u> </u>
Net loans	32,658,601	32,434,563	29,511,273
Other interest-earning assets	34,639	36,149	698,735
Premises and equipment, net	1,083,333	1,060,574	993,651
Cash surrender value - bank owned life insurance	1,122,447	1,111,934	1,077,426
Accrued interest receivable and other assets	1,246,099	1,322,327	1,313,750
	<u> </u>	<u> </u>	<u> </u>
	\$ 50,011,458	\$ 49,548,371	\$ 47,414,968
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits and interest-bearing liabilities:			
Deposits:			
Noninterest-bearing demand	\$ 7,500,430	\$ 7,182,806	\$ 6,544,028
Interest-bearing demand	7,071,159	7,115,545	6,737,060
Money market and savings deposits	9,871,634	8,810,972	7,887,543
Time	9,509,574	9,476,075	9,222,257
Foreign	875,723	1,647,381	1,153,804
	<u> </u>	<u> </u>	<u> </u>
Total deposits	34,828,520	34,232,779	31,544,692
Federal funds purchased and securities sold under agreements to repurchase	2,610,403	2,291,988	1,927,492
Other borrowed funds	203,639	429,098	325,169
Long-term Federal Home Loan Bank advances	3,918,255	4,371,745	5,783,600
Other long-term debt	3,344,018	2,899,773	2,286,091
	<u> </u>	<u> </u>	<u> </u>
Total deposits and interest-bearing liabilities	44,904,835	44,225,383	41,867,044

Edgar Filing: AMSOUTH BANCORPORATION - Form 10-Q

Accrued expenses and other liabilities	1,614,901	1,754,147	2,175,575
Total liabilities	46,519,736	45,979,530	44,042,619
Shareholders' equity:			
Preferred stock - no par value:			
Authorized - 2,000,000 shares			
Issued and outstanding - none	-0-	-0-	-0-
Common stock - par value \$1 a share:			
Authorized - 750,000,000 shares			
Issued - 416,736,000, 416,748,000 and 416,769,000 shares, respectively	416,736	416,748	416,769
Additional paid-in capital	729,039	726,411	714,262
Retained earnings	3,580,202	3,492,873	3,295,748
Cost of common stock in treasury - 63,685,000, 60,438,000 and 63,865,000 shares, respectively	(1,073,672)	(986,510)	(1,054,734)
Deferred compensation on restricted stock	(16,230)	(12,947)	(14,551)
Accumulated other comprehensive (loss)/income	(144,353)	(67,734)	14,855
Total shareholders' equity	3,491,722	3,568,841	3,372,349
	\$ 50,011,458	\$ 49,548,371	\$ 47,414,968

See notes to consolidated financial statements.

Table of Contents**AMSOUTH BANCORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS****(Unaudited)**

	Three Months Ended March 31	
	2005	2004
(In thousands except per share data)		
INTEREST INCOME		
Loans	\$ 431,375	\$ 375,715
Available-for-sale securities	75,791	83,419
Held-to-maturity securities	72,096	62,593
Trading securities	159	72
Loans held for sale	1,498	2,627
Other interest-earning assets	255	210
Total interest income	581,174	524,636
INTEREST EXPENSE		
Interest-bearing demand	16,345	7,346
Money market and savings deposits	29,368	9,315
Time deposits	65,279	62,048
Foreign deposits	6,803	2,589
Federal funds purchased and securities sold under agreements to repurchase	16,354	6,645
Other borrowed funds	1,928	1,981
Long-term Federal Home Loan Bank advances	40,199	60,469
Other long-term debt	25,150	14,746
Total interest expense	201,426	165,139
NET INTEREST INCOME	379,748	359,497
Provision for loan losses	20,600	28,100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	359,148	331,397
NONINTEREST REVENUES		
Service charges on deposit accounts	85,034	93,215
Trust income	30,353	28,880
Consumer investment services income	20,032	20,411
Interchange income	21,178	16,299
Bank owned life insurance policies	10,511	11,669
Mortgage income	3,986	7,512
Portfolio income	1,282	9,667
Other noninterest revenues	43,060	32,777
Total noninterest revenues	215,436	220,430

Edgar Filing: AMSOUTH BANCORPORATION - Form 10-Q

NONINTEREST EXPENSES			
Salaries and employee benefits	178,655	173,706	
Net occupancy	36,857	35,252	
Equipment	31,086	30,544	
Postage and office supplies	10,693	12,958	
Marketing	9,771	11,746	
Professional fees	7,489	8,330	
Other noninterest expenses	44,966	49,738	
	<hr/>	<hr/>	
Total noninterest expenses	319,517	322,274	
	<hr/>	<hr/>	
INCOME BEFORE INCOME TAXES			
	255,067	229,553	
Income taxes	76,422	69,454	
	<hr/>	<hr/>	
NET INCOME			
	\$ 178,645	\$ 160,099	
	<hr/>	<hr/>	
Average common shares outstanding	basic	354,299	351,196
Earnings per common share	basic	\$.50	\$.46
Average common shares outstanding	diluted	358,812	356,908
Earnings per common share	diluted	\$.50	\$.45

See notes to consolidated financial statements.

Table of Contents**AMSOUTH BANCORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Deferred Compensation on Restricted Stock</u>	<u>Accumulated Other Comprehensive Income/(Loss)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>						
	(In thousands)							
BALANCE AT JANUARY 1, 2004	351,891	\$ 416,878	\$ 715,663	\$ 3,228,533	\$ (1,076,644)	\$ (14,501)	\$ (40,260)	\$ 3,229,669
Comprehensive income:								
Net income	-0-	-0-	-0-	160,099	-0-	-0-	-0-	160,099
Other comprehensive income, net of tax:								
Net change in unrealized gains and losses on available-for-sale securities*	-0-	-0-	-0-	-0-	-0-	-0-	42,431	42,431
Net change in unrealized gains and losses on derivative instruments*	-0-	-0-	-0-	-0-	-0-	-0-	12,684	12,684
Comprehensive income								215,214
Cash dividends declared (\$0.24 per share)	-0-	-0-	-0-	(85,072)	-0-	-0-	-0-	(85,072)
Common stock transactions:								
Purchase of common stock	(1,262)	-0-	-0-	-0-	(30,890)	-0-	-0-	(30,890)
Employee stock plans	2,136	(109)	(1,897)	(7,812)	49,904	(50)	-0-	40,036
Direct stock purchase and dividend reinvestment plan	139	-0-	496	-0-	2,896	-0-	-0-	3,392
BALANCE AT MARCH 31, 2004	352,904	\$ 416,769	\$ 714,262	\$ 3,295,748	\$ (1,054,734)	\$ (14,551)	\$ 14,855	\$ 3,372,349
BALANCE AT JANUARY 1, 2005	356,310	\$ 416,748	\$ 726,411	\$ 3,492,873	\$ (986,510)	\$ (12,947)	\$ (67,734)	\$ 3,568,841
Comprehensive income:								
Net income	-0-	-0-	-0-	178,645	-0-	-0-	-0-	178,645
Other comprehensive income, net of tax:								
Net change in unrealized gains and losses on available-for-sale securities*	-0-	-0-	-0-	-0-	-0-	-0-	(72,852)	(72,852)
Net change in unrealized gains and losses on derivative instruments*	-0-	-0-	-0-	-0-	-0-	-0-	(3,767)	(3,767)
Comprehensive income								102,026
Cash dividends declared (\$0.25 per share)	-0-	-0-	-0-	(89,109)	-0-	-0-	-0-	(89,109)
Common stock transactions:								
Purchase of common stock	(4,997)	-0-	-0-	-0-	(126,115)	-0-	-0-	(126,115)
Employee stock plans	1,628	(12)	1,922	(2,207)	36,796	(3,283)	-0-	33,216
Direct stock purchase and dividend reinvestment plan	110	-0-	706	-0-	2,157	-0-	-0-	2,863
BALANCE AT MARCH 31, 2005	353,051	\$ 416,736	\$ 729,039	\$ 3,580,202	\$ (1,073,672)	\$ (16,230)	\$ (144,353)	\$ 3,491,722

* See disclosure of reclassification adjustment amount and tax effect, as applicable, in notes to consolidated financial statements.

See notes to consolidated financial statements.

Table of Contents**AMSOUTH BANCORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended March 31	
	2005	2004
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$ 178,645	\$ 160,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	20,600	28,100
Depreciation and amortization of premises and equipment	29,515	26,206
Amortization of premiums and discounts on held-to-maturity securities and available-for-sale securities	6,238	9,338
Originations and purchases of loans held for sale	(240,281)	(374,126)
Proceeds from sales of loans held for sale	224,071	244,299
Net gains on sales of available-for-sale securities	(1,128)	(8,494)
Net gains on sales of loans held for sale and mortgage loans	(3,637)	(4,570)
Net gain on sales of home equity loans	(4,157)	(4,884)
Net gains on sales of student loans	(2,082)	(858)
Net (increase) decrease in trading securities	(31,304)	2,175
Net decrease (increase) in accrued interest receivable, bank-owned life insurance and other assets	26,563	(23,516)
Net (decrease) increase in accrued expenses and other liabilities	(33,650)	42,037
Provision for deferred income taxes	27,930	31,935
Amortization of intangible assets	696	1,163
Net gain on prepayment of Federal Home Loan Bank advances	(2,703)	-0-
Other operating activities, net	23,528	23,272
	218,844	152,176
INVESTING ACTIVITIES		
Proceeds from maturities and prepayments of available-for-sale securities	221,317	272,946
Proceeds from sales of available-for-sale securities	198,093	922,946
Purchases of available-for-sale securities	(645,013)	(318,920)
Proceeds from maturities, prepayments and calls of held-to-maturity securities	274,960	383,232
Purchases of held-to-maturity securities	(292,037)	(1,290,855)
Net increase in federal funds sold and securities purchased under agreements to resell	-0-	(654,000)
Net decrease (increase) in other interest-earning assets	1,510	(4,517)
Net increase in loans, excluding guaranteed mortgage loan securitizations and sales of loans	(986,486)	(1,010,319)
Proceeds from sales of mortgage loans	251,153	154,844
Proceeds from sales of home equity loans	218,077	156,552
Proceeds from sales of student loans	210,538	91,557
Net purchases of premises and equipment	(52,274)	(55,165)
	(600,162)	(1,351,699)
FINANCING ACTIVITIES		
Net increase in deposits	595,987	1,104,064
Net increase (decrease) in federal funds purchased and securities sold under agreements to repurchase	318,415	(98,761)
Net decrease in other borrowed funds	(225,459)	(18,033)
Proceeds from issuance of long-term Federal Home Loan Bank advances and other long-term debt	469,992	250,000
Payments for maturing Federal Home Loan Bank advances and other long-term debt	(103,548)	(54,408)
Payments for prepayment of Federal Home Loan Bank advances	(347,297)	-0-
Cash dividends paid	(89,946)	(84,584)

Edgar Filing: AMSOUTH BANCORPORATION - Form 10-Q

Proceeds from employee stock plans, direct stock purchase and dividend reinvestment plan	33,060	42,265
Purchase of common stock	(126,115)	(30,890)
Net cash provided by financing activities	525,089	1,109,653
Increase (Decrease) in cash and cash equivalents	143,771	(89,870)
Cash and cash equivalents at beginning of period	966,993	1,163,986
Cash and cash equivalents at end of period	\$ 1,110,764	\$ 1,074,116

See notes to consolidated financial statements.

Table of Contents

AMSOUTH BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Three months ended March 31, 2005 and 2004

Note 1 Basis of Presentation The consolidated financial statements conform to accounting principles generally accepted in the United States. The accompanying interim financial statements are unaudited; however, in the opinion of Management, all adjustments necessary for the fair presentation of the consolidated financial statements have been included. All such adjustments are of a normal recurring nature. Certain amounts in the prior periods financial statements have been reclassified to conform to the 2005 presentation. These reclassifications had no effect on net income. The notes included herein should be read in conjunction with the notes to consolidated financial statements included in AmSouth Bancorporation's (AmSouth) 2004 annual report on Form 10-K. The accounting policies employed are the same as those shown in Note 1 to the Consolidated Financial Statements on Form 10-K.

The consolidated financial statements and notes are presented in accordance with the instructions for Form 10-Q. The consolidated financial statements include the accounts of AmSouth and its subsidiaries (all of which are wholly owned) and certain variable interest entities. All significant intercompany balances and transactions have been eliminated.

Note 2 Recent Accounting Developments In December 2004, the Financial Accounting Standards Board (FASB) issued revised Statement of Financial Accounting Standards No. 123, Share-Based Payment (Statement 123R). Statement 123R requires companies to recognize in their financial statements the cost resulting from all share-based payment transactions using a fair value-based measurement model. Share-based payment transactions include transactions in which the entity issues stock, share options or other equity instruments in exchange for goods or services. A fair value-based measurement model requires the fair value of share-based payments issued to nonemployees to be recorded at the fair value of the goods or services received. For payments to employees, Statement 123R requires that share-based payments be recorded at their fair value and be classified as either a liability or equity. Entities are required to estimate the fair value of share-based payments to employees using a mathematical model that reflects the most accurate valuation given the information available and incorporates various factors, including exercise price of the option, expected volatility of the entity's stock, expected term of the award, performance/service/market conditions, expected dividends, the risk-free rate, and grant date share price. Payments classified as liabilities are required to be remeasured at the end of each reporting period. The fair value of awards classified as equity is required to be recognized over the requisite service period or the period during which the employee is expected to provide service to earn the award. Statement 123R replaces Statement 123 and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Statement 123R will become effective for AmSouth in annual reporting periods beginning after June 15, 2005, requiring all share-based payments granted or modified subsequent to the implementation date to be accounted for under Statement 123R. AmSouth expects to record quarterly compensation expense of approximately \$0.02 per share as a result of the adoption of Statement 123R and has not yet determined the transition method. During full implementation, AmSouth will be performing additional analyses to validate the various factors used in the valuation model as a result of the enhanced requirements of Statement 123R.

In the first quarter of 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107). SAB 107 addresses the interaction between Statement 123R and certain SEC rules and regulations and provides the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. Also, the United States House of Representatives has passed the Stock Option Accounting Reform Act (the Bill) that requires public companies to expense only the stock options granted to certain highly compensated individuals. The Bill is currently before the United States Senate. AmSouth will continue to monitor the outcome of the Bill and its potential impact to its consolidated financial statements.

Table of Contents

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-3, Accounting for Certain Loans and Debt Securities Acquired in a Transfer (SOP 03-3). SOP 03-3 addresses accounting for differences between contractual cash flows expected to be collected and an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans and debt securities acquired in purchase business combinations. SOP 03-3 limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. SOP 03-3 requires that the excess of contractual cash flows over cash flows to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual or valuation allowance. SOP 03-3 prohibits investors from displaying accretable yield and nonaccretable difference on the balance sheet. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment. SOP 03-3 prohibits carrying over or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of SOP 03-3. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. The adoption of SOP 03-3 had no material impact on AmSouth's consolidated financial condition or results of operations.

Note 3 Cash Flows The following table summarizes supplemental cash flow information for the three months ended March 31:

<u>(In thousands)</u>	<u>2005</u>	<u>2004</u>
Cash paid (received) during the period for:		
Interest	\$ 191,845	\$ 157,409
Income taxes	59,153	(9,065)