

PROSPERITY BANCSHARES INC
Form 11-K
June 29, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

**ANNUAL REPORT OF EMPLOYEE STOCK PURCHASE,
SAVINGS AND SIMILAR PLANS PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

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

For the transition period from _____ to _____

Commission File Number: 000-25051

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

PROSPERITY BANCSHARES, INC.

401(K) PROFIT SHARING PLAN

**B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:
PROSPERITY BANCSHARES, INC.**

PROSPERITY BANK PLAZA

4295 SAN FELIPE

HOUSTON, TEXAS 77027

Table of Contents

Prosperity Bancshares, Inc.

401(k) Profit Sharing Plan

Audited Financial Statements and Supplemental Schedule

For the Years Ended December 31, 2005 and 2004

Table of Contents

<u>Report of Independent Registered Public Accounting Firm</u>	2
<u>Statements of Net Assets Available for Benefits as of December 31, 2005 and 2004</u>	3
<u>Statements of Changes in Net Assets Available for Benefits for the Years Ended December 31, 2005, 2004 and 2003</u>	4
<u>Notes to Financial Statements</u>	5
<u>Schedule H, Item 4i - Schedule of Assets (Held at End of Year)</u>	15

Table of Contents

Killman, Murrell & Company, P.C.

Certified Public Accountants

**3300 N. A Street, Bldg. 4, Suite 200
Midland, Texas 79705
(432) 686-9381
Fax (432) 684-6722**

**1931 E. 37th Street, Suite 7
Odessa, Texas 79762
(432) 363-0067
Fax (432) 363-0376**

**2626 Royal Circle
Kingwood, Texas 77339
(281)359-7224
Fax (281) 359-7112**

Report of Independent Registered Public Accounting Firm

To the Audit Committee of

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

We have audited the accompanying statements of net assets available for benefits of Prosperity Bancshares, Inc. 401K Profit Sharing Plan as of December 31, 2005 and 2004 and the related statements of changes in net assets available for benefits for each of the years in the three year period ended December 31, 2005. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Prosperity Bancshares, Inc. 401K Profit Sharing Plan as of December 31, 2005 and 2004 and the changes in its net assets available for benefits for each of the years in the three year period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2005 is presented for purposes of complying with the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and is not a required part of the basic financial statements. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ Killman, Murrell & Company, P.C.

Killman, Murrell & Company, P.C.

Houston, Texas

June 19, 2006

Table of Contents**Prosperity Bancshares, Inc.****401K Profit Sharing Plan****Statements of Net Assets Available For Benefits**

	<i>December 31,</i>	
	2005	2004
ASSETS		
First Trust Money Market Account	\$ 12,554	\$ 4,510
Prosperity Bank Interest Bearing Account	5,197,947	3,793,120
Prosperity Bancshares, Inc. Common Stock	11,905,947	10,754,392
Loans to Participants	681,240	547,129
Fundamental Investors	476,331	181,369
New Perspective Fund	736,748	555,440
Washington Mutual Investors Fund	552,976	541,237
Capital Income Builder	644,221	309,737
Capital World Growth and Income Fund	707,277	350,899
American Balance Fund	600,327	448,774
Euro Pacific Growth Fund	595,521	331,419
The Growth Fund of America	1,869,436	1,312,580
Intermediate Bond Fund of America	263,850	249,840
The Investment Company of America	918,974	706,898
AMCAP Fund	630,752	429,426
The Income Fund of America	396,939	161,889
American Mutual Fund	494,818	205,437
AIM Mid Cap Core Equity	375,417	115,744
Metlife Stable Value	1,073,036	846,331
Allianz NFJ Small Cap Value	672,062	102,878
PIMCO Total Return	915,045	441,559
Sentinel Small Company	853,161	349,716
Calvert Social Inv Equity	20,675	3,151
Employee Receivable		79,610
Employer Receivable		34,237
Total Assets	30,595,254	22,857,322
LIABILITIES		
Accrued Expenses	10,615	
Total Liabilities	10,615	
NET ASSETS AVAILABLE FOR PLAN BENEFITS	\$ 30,584,639	\$ 22,857,322

See accompanying notes.

Table of Contents**Prosperity Bancshares, Inc.****401K Profit Sharing Plan****Statements of Changes in Net Assets Available For Benefits**

	Years Ended December 31,		
	2005	2004	2003
ADDITIONS			
ADDITIONS TO NET ASSETS ATTRIBUTED TO:			
Net appreciation in fair value of investments	\$ 801,023	\$ 3,071,954	\$ 2,233,222
Interest and dividends	331,158	241,564	238,512
	1,132,181	3,313,518	2,471,734
CONTRIBUTIONS:			
Participants rollovers and other	136,832	41,444	28,401
Participants elective deferrals	1,962,990	1,516,981	1,229,544
Employer s	857,289	715,551	588,924
	2,957,111	2,273,976	1,846,869
TOTAL ADDITIONS	4,089,292	5,587,494	4,318,603
DEDUCTIONS			
Deductions from net assets attributable to rollovers or withdrawals paid to participants	1,802,603	1,808,824	1,448,208
Corrective distributions	4,371	25,920	
Administrative expenses	30,820	45,593	11,650
TOTAL DEDUCTIONS	1,837,794	1,880,337	1,459,858
	2,251,498	3,707,157	2,858,745
OTHER TRANSFERS			
Transfer of assets related to mergers	5,475,819	779,398	1,883,623
Net increase in assets available for benefits	7,727,317	4,486,555	4,742,368
NET ASSETS AVAILABLE FOR BENEFITS:			
Beginning of Year	22,857,322	18,370,767	13,628,399
End of Year	\$ 30,584,639	\$ 22,857,322	\$ 18,370,767

See accompanying notes.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements

December 31, 2005 and 2004

1. Description of Plan

The following description of the Prosperity Bancshares, Inc. 401K Profit Sharing Plan (the "Plan") provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions.

GENERAL

The Plan is a defined contribution plan covering all full-time and part-time employees of Prosperity Bank (the "Bank"), plan sponsor, who have completed at least three months of service and are twenty-one years of age or older. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

CONTRIBUTIONS

Each year, participants may contribute up to the maximum amount of pretax annual compensation allowed by law. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. The Bank, at its discretion, may contribute to the Plan, on a participant's behalf, a matching contribution which is determined annually. In 2005, 2004, and 2003, the Bank matched 50% of the employees' contributions up to 15% of their annual compensation.

Upon enrollment, a participant may direct contributions in any increment to any of the Plan's fund options. Participants may change their investment options quarterly. Employer contributions are matched to the funds designated by the participant.

PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's contributions and allocations of (a) the Bank's contributions and (b) plan earnings, and is charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. Forfeited balances of terminated participants' nonvested accounts are used to offset Plan expenses and reduce future company contributions. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

1. Description of Plan (continued)

VESTING

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Bank contribution portion of participant accounts plus actual earnings thereon is based on years of continuous service. To qualify for a year of service, the participant must complete 1,000 hours of service in that calendar year. A participant is vested ratably (20% at the end of the second year as a participant in the Plan) over a six-year period.

PARTICIPANT LOANS

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan terms generally range from 1-5 years, but can be longer if the loan is used to purchase a principal residence. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with the local prevailing rates. Principal and interest is paid ratably through monthly payroll deductions. Interest rates range from 5.00% to 11.5% on outstanding loans.

PAYMENT OF BENEFITS

On termination of service, a participant may receive a lump-sum amount, equal to the vested value of his or her account, or upon death, disability or retirement, elect to receive payment from the following options: (1) qualified joint and survivor annuities, (2) single payment of the employee's entire benefit, (3) equal installments over a fixed period not to exceed the employee's life expectancy or the joint and last survivor's life expectancy, or (4) payments in the form of a joint and survivor annuity. The Plan does permit hardship distributions. In order to qualify for such hardship withdrawal, the participant must demonstrate that an immediate and necessary financial hardship has been incurred.

FORFEITURES

Forfeited balances of terminated participants' nonvested accounts are used to offset Plan expenses and reduce future company contributions.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

1. Description of Plan (continued)

PLAN TERMINATION

Although it has not expressed any intent to do so, the Bank has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts.

INVESTMENT OPTIONS

Upon enrollment in the Plan, a participant may direct their contributions in various increments totaling 100% in the Prosperity Bank Interest Bearing Account, or in any of the following investment options:

Prosperity Bancshares, Inc. Common Stock

Funds are invested in common stock of Prosperity Bancshares, Inc.

Fundamental Investors

Funds are invested primarily in common stocks or securities convertible into common stocks to provide long-term growth of capital and income. The funds may also be invested in bonds and debt securities of issuers outside of the U.S.

New Perspective Fund

Funds are invested in common stocks, preferred stocks, securities convertible into common stocks, and bonds to provide long-term growth of capital through investments in blue-chip companies based in the U.S. and abroad with an emphasis on global or multinational companies and a focus on opportunities created by changes in global trade patterns and economic and political relationships.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

1. Description of Plan (continued)

Washington Mutual Investors Fund

Funds are primarily invested in common stocks of U.S. companies that meet strict standards based on requirements originally established by the U.S. District Court for the District of Columbia for the investment of trust funds. It may also invest up to 5% of its assets in non-U.S. companies that meet certain investment standards. Funds are invested to provide current income and an opportunity for growth.

Capital Income Builder

Funds are invested in common stocks or bonds to provide above-average current income, a growing stream of income, and growth of capital. Generally, at least 50% of investments will be in common stocks of large, established companies with a history of increasing dividends. Up to 40% of investments might be in securities of non-U.S. issuers.

Capital World Growth and Income Fund

Funds are primarily invested in blue chip common stocks of established companies in the world's largest stock markets to provide long-term capital growth with current income.

American Balance Fund

Funds are invested in blue chip common stocks, quality bonds, securities convertible to common stocks and money market instruments to provide conservation of capital, current income, and long-term growth of capital and income.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

1. Description of Plan (continued)

Euro Pacific Growth Fund

Funds are invested in common stocks, preferred stocks, securities convertible to common stocks, American depository receipts, European depository receipts, bonds, and cash to provide long-term growth of capital primarily of issuers located in Europe and the Pacific Basin.

The Growth Fund of America

Funds are invested in common stocks, preferred stock, and securities convertible to common stocks of companies that appear to offer opportunities for long-term growth of capital, such as cyclical companies, those in depressed industries, and turnaround or value situations.

Intermediate Bond Fund of America

Funds are invested in a portfolio of corporate bonds, U.S. government bonds or notes, GNMA certificates and other mortgage-related securities to provide current income and preservation of capital through a bond portfolio with an average effective maturity of no greater than five years.

The Investment Company of America

Funds are primarily invested in common stocks of well-established blue chip companies, representing a wide cross section of the U.S. economy to provide long-term growth of capital and income, placing greater emphasis on future dividends than on current income.

AMCAP Fund

Funds are primarily invested in undervalued common stocks of growing, profitable companies located in the U.S. that represent opportunities to provide long-term growth of capital.

The Income Fund of America

Funds are primarily invested in common stocks and bonds of U.S. companies to provide current income and, secondarily, growth of capital.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

1. Description of Plan (continued)

American Mutual Fund

Funds are primarily invested in common stocks, securities convertible into common stocks, non-convertible preferred stocks, U.S. government securities, bonds rated A or better, and cash to provide the balanced accomplishment of current income, capital growth, and conservation of principal through investments in companies that participate in the growth of the American economy.

Calvert Social Inv Equity

Funds are invested primarily in common stocks of large-cap companies having market capitalization of at least \$1 Billion.

AIM Mid Cap Core Equity

Funds are invested primarily in attractively priced stocks of mid-sized companies with good growth prospects.

PIMCO Total Return

Funds are invested primarily in intermediate-term mortgage-related securities to provide maximum total return, consistent with preservation of capital and prudent investment management.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

1. Description of Plan (continued)

Sentinel Small Company

Funds are invested primarily in a diversified portfolio of common stocks and convertible securities issued by small and mid-sized companies seeking long-term capital appreciation.

Metlife Stable Value

The fund's objective is to protect principal and offer fixed returns that compare favorably with the yields on intermediate-term fixed income securities.

Allianz NFJ Small Cap Value Fund

Funds are primarily invested in common stocks of companies with small market capitalizations that have a below average price earnings ratio relative to their industry.

2. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The financial statements of the Plan are prepared using the U. S. generally accepted accounting principles.

INVESTMENT VALUATION AND INCOME RECOGNITION

The Plan's investments are stated at fair value. Shares of registered investment companies are valued at quoted market prices, which represent the net asset value of the shares held by the Plan at year-end. The Prosperity Bancshares, Inc. common stock is valued at its quoted market price. The participant loans are valued at their outstanding balances, which approximate fair value. Money market accounts and certificates of deposit are valued based on cost plus accrued interest.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

2. Summary of Significant Accounting Policies (continued)

PAYMENT OF BENEFITS

Benefits are recorded when paid.

USE OF ESTIMATES

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

The Plan presents in the statement of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses on sale of investments and unrealized appreciation (depreciation) on those investments.

3. Credit Risk

The Plan provides for various investment options in any combination of stocks, bonds, fixed income securities, mutual funds and other investment securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of net assets available for plan benefits and the amounts reported in participant accounts.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

4. Tax Status

The Plan has received a determination letter from the Internal Revenue Service stating that the Plan is qualified under Section 401(a) of the Internal Revenue Service Code (the Code) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan Administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is exempt.

5. Party-in-Interest Transactions

Investment transactions in Prosperity Bank Interest Bearing Account and Prosperity Bancshares, Inc. Common Stock qualify as party-in-interest transactions.

During July 2002, the Plan entered into an agreement with First Trust Corporation (FTC) whereby FTC became the Trustee of the Plan. Compensation to FTC is based on .07% of assets, billed quarterly. Compensation paid to FTC for the years ended December 31, 2005, 2004, and 2003 was \$18,754, \$14,522, and \$9,103, respectively.

6. Mergers

In June 2005, the FirstCapital Bank SSB, 401(k) Retirement Plan (FirstCapital Plan) was merged into the Plan. Transfers of \$4,764,598 from the FirstCapital Plan have been included on the statements of changes in net assets available for plan benefits as other transfers for the year ended December 31, 2005.

In March 2005, the Village Bank & Trust, SSB Profit Sharing Plan 401K Plan (Village Plan) was merged into the Plan. Transfers of \$300,250 from the Village Plan have been included on the statements of changes in net assets available for plan benefits as other transfers for the year ended December 31, 2005.

In February 2005, the Liberty Bank Employees 401K Profit Sharing Plan (Liberty Plan) was merged into the Plan. Transfers of \$311,995 from the Liberty Plan have been included on the statements of changes in net assets available for plan benefits as other transfers for the year ended December 31, 2005.

Loans totaling \$98,976 were transferred to the Plan during 2005 and have been included on the statements of changes in net assets available for benefits as other transfers for the year ended December 31, 2005.

Table of Contents

Prosperity Bancshares, Inc.

401K Profit Sharing Plan

Notes to Financial Statements (continued)

December 31, 2005 and 2004

6. Mergers (continued)

In January 2004, the Mainbank 401(k) Profit Sharing Plan (Mainbank Plan) was merged into the Plan. Transfers of \$549,169 from the Mainbank Plan have been included on the statements of changes in net assets available for plan benefits as other transfers for the year ended December 31, 2004.

In August 2004, the FSBNT 401(k) Plan (FSBNT Plan) was merged into the Plan. Transfers of \$230,229 from the FSBNT Plan have been included on the statements of changes in net assets available for plan benefits as other transfers for the year ended December 31, 2004.

In January 2003, the Paradigm Bancorporation, Inc. 401K Savings Plan (Paradigm Plan) was merged into the Plan. Transfers of \$1,486,542 from the Paradigm Plan have been included on the statements of changes in net assets available for plan benefits as other transfers for the year ended December 31, 2003.

In July 2003, the MB Financial 401(k) Plan (Abrams Plan) was merged into the Plan. Transfers of \$284,331 from the Abrams Plan have been included on the statement of changes in net assets available for plan benefits as other transfers for the year ended December 31, 2003.

Other transfers to the Plan from mergers during 2003 amounted to \$72,333. This amount has also been included on the statement of changes in net assets available for plan benefits as other transfers for the year ended December 31, 2003.

Loans totaling \$40,417 were transferred to the Plan during 2003 and have been included on the statements of changes in net assets available for benefits as other transfers for the year ended December 31, 2003.

The transferred net assets have been recognized in the accounts of the Plan at their balances as previously carried in the accounts of their predecessor plans.

7. Subsequent Events

Through June 2006, assets from another plan amounting to approximately \$5,164,000 were merged into the Plan.

Table of Contents**Supplemental Schedule****Prosperity Bancshares, Inc.****401K Profit Sharing Plan****Schedule H, Item 4I Schedule of Assets (Held at End of Year)****December 31, 2005**

(a)	(b) Identity of Issue	(c) Description	(d) Cost	(e) Current Value
*	First Trust Money Market Account	Non-Int-Bearing		\$ 12,554
**	Prosperity Bank Interest Bearing Account	Interest-Bearing		5,197,947
**	Prosperity Bancshares, Inc. Common Stock	Common Stock		11,905,947
***	Participant Loans	N/A		681,240
	Fundamental Investors	Mutual Fund		476,331
	New Perspective Fund	Mutual Fund		736,748
	Washington Mutual Investors Fund	Mutual Fund		552,976
	Capital Income Builder	Mutual Fund		644,221
	Capital World Growth and Income Fund	Mutual Fund		707,277
	American Balance Fund	Mutual Fund		600,327
	Euro Pacific Growth Fund	Mutual Fund		595,521
	The Growth Fund of America	Mutual Fund		1,869,436
	Intermediate Bond Fund of America	Mutual Fund		263,850
	The Investment Company of America	Mutual Fund		918,974
	AMCAP Fund	Mutual Fund		630,752
	The Income Fund of America	Mutual Fund		396,939
	American Mutual Fund	Mutual Fund		494,818
	Metlife Stable Value	Mutual Fund		1,073,036
	AIM Mid Cap Core Equity	Mutual Fund		375,417
	Allianz NFJ Small Cap Value	Mutual Fund		672,062
	PIMCO Total Return	Mutual Fund		918,045
	Sentinel Small Company	Mutual Fund		853,161
	Calvert Social Inv Equity	Mutual Fund		20,675

Note: Cost information is not presented because all investments are participant directed.

* Represents a party-in-interest

** Represents a party-in-interest and investments comprising at least 5% of net assets available for benefits.

*** Loans to participants bearing interest at rates ranging from 5% to 11.5%.

Table of Contents

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Prosperity Bancshares, Inc. 401(k) Profit Sharing Plan Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

June 29, 2006

Prosperity Bancshares, Inc. 401(k) Profit Sharing Plan

/s/ Michael Harris
Michael Harris
Cashier, Prosperity Bank

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Description
23.1	Consent of Independent Registered Public Accounting Firm