

AMSOUTH BANCORPORATION

Form 10-Q

May 09, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2006

Commission file number 1-7476

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**AmSouth Bancorporation**

(Exact Name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or Organization)

AmSouth Center

1900 Fifth Avenue North

63-0591257  
(I.R.S. Employer

Identification No.)

35203

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**Birmingham, Alabama**  
(Address of principal executive offices)

(Zip Code)

(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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of April 28, 2006, AmSouth Bancorporation had 346,072,000 shares of common stock outstanding.

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**Forward-Looking Statements**

Statements in this document that 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: specific factors mentioned in the text of this document; 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' 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 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.

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*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)**

	<b>March 31</b>	<b>December 31</b>	<b>March 31</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>(Dollars in thousands)</b>			
<b>ASSETS</b>			
Cash and due from banks	\$ 1,110,025	\$ 1,307,043	\$ 1,110,764
Trading securities	5,672	30,419	33,185
Available-for-sale securities	5,854,279	5,989,989	6,378,267
Held-to-maturity securities (market value of \$5,371,064, \$5,576,243 and \$6,111,379, respectively)	5,540,409	5,679,494	6,193,235
Loans held for sale	276,420	406,553	150,888
Loans	37,444,891	36,620,195	33,717,548
Less: Allowance for loan and lease losses	352,242	366,695	366,836
Unearned income	706,943	722,256	692,111
	<u>          </u>	<u>          </u>	<u>          </u>
Net loans	36,385,706	35,531,244	32,658,601
Other interest-earning assets	76,445	68,000	34,639
Premises and equipment, net	1,227,287	1,200,114	1,083,333
Cash surrender value bank owned life insurance	1,167,701	1,156,265	1,122,447
Accrued interest receivable and other assets	1,214,218	1,237,989	1,246,099
	<u>          </u>	<u>          </u>	<u>          </u>
	<b>\$ 52,858,162</b>	<b>\$ 52,607,110</b>	<b>\$ 50,011,458</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits and interest-bearing liabilities:			
Deposits:			
Noninterest-bearing demand	\$ 8,291,134	\$ 8,233,137	\$ 7,500,430
Interest-bearing demand	7,826,012	7,299,655	7,071,159
Money market and savings	9,561,009	9,513,548	9,871,634
Time	10,424,392	9,928,485	9,509,574
Foreign	1,016,771	1,373,557	875,723
	<u>          </u>	<u>          </u>	<u>          </u>
Total deposits	37,119,318	36,348,382	34,828,520
Federal funds purchased and securities sold under agreements to repurchase	3,923,273	4,404,262	2,610,403
Other borrowed funds	493,673	511,625	203,639
Long-term Federal Home Loan Bank advances	1,930,927	1,958,730	3,918,255
Other long-term debt	3,947,960	4,025,941	3,344,018
	<u>          </u>	<u>          </u>	<u>          </u>

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Total deposits and interest-bearing liabilities	47,415,151	47,248,940	44,904,835
Accrued income taxes	1,087,169	1,044,721	984,189
Accrued expenses and other liabilities	738,100	678,872	630,712
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	49,240,420	48,972,533	46,519,736
	<u>          </u>	<u>          </u>	<u>          </u>
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 - 416,719,000, 416,706,000 and 416,736,000 shares, respectively	416,719	416,706	416,736
Additional paid-in capital	743,634	738,011	729,039
Retained earnings	3,917,314	3,844,183	3,580,202
Cost of common stock in treasury - 70,129,000, 68,634,000 and 63,685,000 shares, respectively	(1,249,518)	(1,208,874)	(1,073,672)
Deferred compensation on restricted stock	(18,092)	(14,083)	(16,230)
Accumulated other comprehensive loss, net	(192,315)	(141,366)	(144,353)
	<u>          </u>	<u>          </u>	<u>          </u>
Total shareholders' equity	3,617,742	3,634,577	3,491,722
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>\$ 52,858,162</u>	<u>\$ 52,607,110</u>	<u>\$ 50,011,458</u>

See notes to consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
	<b>(In thousands, except per share data)</b>	
<b>INTEREST INCOME</b>		
Loans	\$ 558,610	\$ 431,375
Available-for-sale securities	69,301	75,791
Held-to-maturity securities	66,513	72,096
Trading securities	414	159
Loans held for sale	4,905	1,498
Other interest-earning assets	687	255
<b>Total interest income</b>	<b>700,430</b>	<b>581,174</b>
<b>INTEREST EXPENSE</b>		
Interest-bearing demand deposits	36,394	16,345
Money market and savings deposits	44,212	29,368
Time deposits	96,950	65,279
Foreign deposits	10,851	6,803
Federal funds purchased and securities sold under agreements to repurchase	38,655	16,354
Other borrowed funds	7,376	1,928
Long-term Federal Home Loan Bank advances	24,853	40,199
Other long-term debt	43,419	25,150
<b>Total interest expense</b>	<b>302,710</b>	<b>201,426</b>
<b>NET INTEREST INCOME</b>	<b>397,720</b>	<b>379,748</b>
Provision for loan and lease losses	27,300	20,600
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>370,420</b>	<b>359,148</b>
<b>NONINTEREST REVENUES</b>		
Service charges on deposit accounts	95,105	85,034
Trust income	23,763	30,353
Consumer investment services income	21,942	20,032
Interchange income	24,735	21,178
Commercial credit fee income	11,480	10,940
Bank owned life insurance policies	10,983	10,511
Other noninterest revenues	31,675	37,388
<b>Total noninterest revenues</b>	<b>219,683</b>	<b>215,436</b>
<b>NONINTEREST EXPENSES</b>		

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Salaries and employee benefits	184,152	178,655
Net occupancy	38,834	36,857
Equipment	31,358	31,086
Postage and office supplies	9,653	10,693
Marketing	13,260	9,771
Other noninterest expenses	52,745	52,455
	<hr/>	<hr/>
Total noninterest expenses	330,002	319,517
	<hr/>	<hr/>
<b>INCOME BEFORE INCOME TAXES</b>	260,101	255,067
Income taxes	79,110	76,422
	<hr/>	<hr/>
<b>NET INCOME</b>	\$ 180,991	\$ 178,645
	<hr/>	<hr/>
Weighted-average common shares outstanding basic	345,433	354,299
Earnings per common share basic	\$ 0.52	\$ 0.50
Weighted-average common shares outstanding diluted	350,743	358,812
Earnings per common share diluted	\$ 0.52	\$ 0.50

See notes to consolidated financial statements.



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## AMSOUTH BANCORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Unaudited)

	Common Stock		Additional			Deferred	Accumulated	Total
	Shares	Amount	Paid-in Capital	Retained Earnings	Treasury Stock	Compensation on Restricted Stock	Other Comprehensive Income (Loss)	
(In thousands)								
<b>BALANCE AT JANUARY 1, 2005</b>	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, net	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
<b>BALANCE AT MARCH 31, 2005</b>	<b>353,051</b>	<b>\$ 416,736</b>	<b>\$ 729,039</b>	<b>\$ 3,580,202</b>	<b>\$ (1,073,672)</b>	<b>\$ (16,230)</b>	<b>\$ (144,353)</b>	<b>\$ 3,491,722</b>
<b>BALANCE AT JANUARY 1, 2006</b>	<b>348,072</b>	<b>\$ 416,706</b>	<b>\$ 738,011</b>	<b>\$ 3,844,183</b>	<b>\$ (1,208,874)</b>	<b>\$ (14,083)</b>	<b>\$ (141,366)</b>	<b>\$ 3,634,577</b>
Comprehensive income:								
Net income	-0-	-0-	-0-	180,991	-0-	-0-	-0-	180,991
Other comprehensive income, net of tax:								
Net change in unrealized gains and losses on available-for-sale securities*	-0-	-0-	-0-	-0-	-0-	-0-	(52,234)	(52,234)
Net change in unrealized gains and losses on derivative instruments*	-0-	-0-	-0-	-0-	-0-	-0-	957	957
Additional minimum pension liability adjustment	-0-	-0-	-0-	-0-	-0-	-0-	328	328
Comprehensive income								130,042
Cash dividends declared (\$0.26 per share)	-0-	-0-	-0-	(90,156)	-0-	-0-	-0-	(90,156)
Common stock transactions:								
Purchase of common stock	(5,051)	-0-	-0-	-0-	(138,650)	-0-	-0-	(138,650)
Employee stock plans, net	3,466	13	5,507	(17,699)	95,386	(4,009)	-0-	79,198
Direct stock purchase and dividend reinvestment plan	103	-0-	116	(5)	2,620	-0-	-0-	2,731
<b>BALANCE AT MARCH 31, 2006</b>	<b>346,590</b>	<b>\$ 416,719</b>	<b>\$ 743,634</b>	<b>\$ 3,917,314</b>	<b>\$ (1,249,518)</b>	<b>\$ (18,092)</b>	<b>\$ (192,315)</b>	<b>\$ 3,617,742</b>

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\* 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)**

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 180,991	\$ 178,645
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	27,300	20,600
Provision for deferred income taxes	26,391	27,930
Depreciation and amortization of premises and equipment	28,460	29,515
Amortization of premiums and discounts on held-to-maturity securities and available-for-sale securities	3,850	6,238
Amortization of intangible assets	541	696
Originations and purchases of loans held for sale	(564,547)	(240,281)
Proceeds from sales of loans held for sale	699,295	434,609
Net gains on sales of available-for-sale securities	(530)	(1,128)
Net gains on sales of loans held for sale	(4,492)	(3,545)
Net gains on sales of loans	-0-	(6,331)
Net gain on sale of branches	(3,622)	-0-
Net decrease (increase) in trading securities	24,747	(31,304)
Net (increase) decrease in accrued interest receivable, bank owned life insurance and other assets	(1,608)	26,563
Net increase (decrease) in accrued expenses and other liabilities	60,925	(33,650)
Prepayment gain on Federal Home Loan Bank advances and other long-term debt	(2,650)	(2,703)
Other operating activities, net	33,475	23,528
	<b>508,526</b>	<b>429,382</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities and prepayments of available-for-sale securities	171,780	221,317
Proceeds from sales of available-for-sale securities	159,387	198,093
Purchases of available-for-sale securities	(276,528)	(645,013)
Proceeds from maturities, prepayments and calls of held-to-maturity securities	185,328	274,960
Purchases of held-to-maturity securities	(47,083)	(292,037)
Net (increase) decrease in other interest-earning assets	(8,445)	1,510
Net increase in loans, excluding sales of loans	(937,594)	(986,486)
Proceeds from sales of loans	-0-	469,230
Net purchases of premises and equipment	(57,033)	(52,274)
Net cash paid for sale of branches	(37,792)	-0-
	<b>(847,980)</b>	<b>(810,700)</b>
<b>FINANCING ACTIVITIES</b>		
Net increase in deposits	832,020	595,987
Net (decrease) increase in federal funds purchased and securities sold under agreements to repurchase	(480,989)	318,415
Net increase (decrease) in other borrowed funds	26,693	(225,459)
Proceeds from issuance of long-term Federal Home Loan Bank advances and other long-term debt	300,400	469,992
Payments for maturing Federal Home Loan Bank advances and other long-term debt	(288,218)	(103,548)
Payments for prepayment of Federal Home Loan Bank advances and other long-term debt	(97,350)	(347,297)
Cash dividends paid	(90,620)	(89,946)
Proceeds from employee stock plans, direct stock purchase and dividend reinvestment	79,150	33,060

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Purchase of common stock	(138,650)	(126,115)
Net cash provided by financing activities	142,436	525,089
(Decrease) Increase in cash and cash equivalents	(197,018)	143,771
Cash and cash equivalents at beginning of period	1,307,043	966,993
Cash and cash equivalents at end of period	\$ 1,110,025	\$ 1,110,764

See notes to consolidated financial statements.

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**AMSOUTH BANCORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Three months ended March 31, 2006 and 2005**

*Note 1 Basis of Presentation* The consolidated financial statements conform to accounting principles generally accepted in the United States of America (GAAP). 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 2006 presentation. These reclassifications had no effect on net income, total assets or shareholders' equity. The notes included herein should be read in conjunction with the notes to consolidated financial statements included in AmSouth Bancorporation's (AmSouth or the Company) 2005 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 except for accounting policies related to share-based payments, which are described in Note 3.

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, 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* Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments (Statement 155) amends existing GAAP by permitting hybrid financial instruments that contain an embedded derivative to be remeasured at fair value. Statement 155 requires entities to evaluate interests in securitized financial assets to identify interests that are derivatives (freestanding or embedded) and eliminates the prohibition on a qualifying special purpose entity from holding certain derivative financial instruments. Statement 155 is effective for financial instruments acquired, issued, or subject to remeasurement (as defined by Statement 155) for fiscal annual periods beginning after September 15, 2006. Management does not believe the adoption of Statement 155 will have a material impact on the consolidated financial statements.

Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets (Statement 156) amends existing GAAP by requiring an entity to recognize servicing assets or liabilities each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations. Statement 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value and permits subsequent measurement under either an amortization method or a fair value method. Statement 156 also requires separate presentation of servicing assets and servicing liabilities measured at fair value and additional disclosures for all separately recognized servicing assets and liabilities. Statement 156 is effective for fiscal years beginning after September 15, 2006. Management does not believe the adoption of Statement 156 will have a material impact on the consolidated financial statements.

*Note 3 Share-Based Payments* AmSouth has long-term incentive compensation plans which permit the granting of incentive awards in the form of stock options, restricted stock (i.e., unvested common stock), and stock appreciation rights. While AmSouth has the ability to issue stock appreciation rights, as of March 31, 2006, there were no outstanding stock appreciation rights. Options and restricted stock granted vest based on employee service and generally vest between one and three years from the date of the grant, which is determined on the grant date by the Human Resources Committee of the Board of Directors. However, several grants of restricted stock made during 2001 have vesting periods between 11 and 21 years. Generally, the terms of these plans stipulate that the exercise price of options may not be less than the fair market value of AmSouth's common stock at the date the options are granted. All of the options granted during 2006 and 2005 expire ten years from the date of

grant. All other options granted generally expire not later than ten years from the date of the grant.

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The number of shares authorized for issuance under long-term compensation plans was 50,463,000 shares at March 31, 2006. AmSouth issues shares from treasury upon exercise. At March 31, 2006 AmSouth had sufficient shares in treasury to forego the purchase of shares in the open market.

AmSouth accounts for share-based payments in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment or Statement 123(R), which was adopted under the modified prospective method on January 1, 2006 and, therefore, results for prior periods have not been restated. Compensation cost is measured based on the fair value of the award at the grant date and recognized in the financial statements on a straight-line basis over the requisite service period. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model, while the fair value of restricted stock is determined based on the closing price of AmSouth's common stock on the grant date. The effect of the adoption of Statement 123(R) on AmSouth's financial condition and results of operations was not material, because on December 29, 2005, AmSouth accelerated vesting of all 15.7 million outstanding unvested stock options previously awarded to employees and directors. Therefore, there were no unvested stock options outstanding at December 31, 2005. There were no significant effects on the results of operations or cash flows during the first quarter of 2006 resulting from the adoption of Statement 123(R).

The following table details the different components of compensation cost for the three months ended March 31:

<u>(In thousands)</u>	<u>2006</u>	<u>2005</u>
Compensation cost of share-based compensation awards:		
Restricted stock	\$ 1,106	\$ 870
Stock options	10	
Tax benefits related to compensation cost	(427)	(327)
Compensation cost of share-based compensation awards, net of tax	<u>\$ 689</u>	<u>\$ 543</u>

Prior to the adoption of Statement 123(R), AmSouth followed the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (Statement 123), which allowed an entity to measure compensation cost for those plans using the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees. AmSouth recognized expense related to stock option grants in its pro forma disclosures according to the accelerated expense attribution model under Financial Accounting Standards Board (FASB) Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans. No option-based employee compensation cost was reflected in reported net income for the three months ending March 31, 2005, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

AmSouth's pro forma information for the period ended March 31, 2005 is as follows:

**(In thousands, except per share data)**

Net income:	
As reported	\$ 178,645
Add: Stock-based compensation expense included in reported net income, net of tax	543
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax	<u>(6,924)</u>

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Pro forma	\$ 172,264
<hr/>	
Earnings per common share:	
As reported	\$ 0.50
Pro forma	0.49
Diluted earnings per common share:	
As reported	\$ 0.50
Pro forma	0.48



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The above pro forma information includes expenses related to all stock options and restricted stock granted during the first quarter of 2005, as well as the expense related to the unvested portion of prior years' grants and assumes that the fair value for these option grants was estimated at the date of grant using a Black-Scholes option pricing model. The estimated fair value of the options is then amortized over the options' vesting period to determine the pro forma expense for the period.

The following table details the weighted-average assumptions used and estimated fair value related to stock options granted for the three months ended March 31:

	<u>2006</u>	<u>2005</u>
Risk-free interest rate	4.33%	3.59%
Expected dividend yield	3.89	3.96
Volatility factor	20.30	21.70
Expected life	4.34yrs.	4.20yrs.
Fair value	\$ 3.97	\$ 3.60

AmSouth utilizes the yield on a zero coupon U.S Treasury note, the maturity of which corresponds to the expected life of the option, in determining the risk-free interest rate. The expected dividend yield is determined by dividing the expected dividends over the next year by the exercise price of the option on the date of grant. AmSouth calculates an option's expected life by considering exercise of stock options. The expected exercise is incorporated into the expected life component of the Black-Scholes option pricing model by reviewing historical employee exercise behaviors at AmSouth. Historical employee exercise behaviors that are observed when analyzing the expected life of an option are combined with historical stock prices to estimate the historical volatility of AmSouth's stock price.

The following tables summarize AmSouth's activity and related information for stock options and restricted stock during the three months ended March 31, 2006:

<u>Stock Options</u>	<u>Number</u>	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value (in thousands)</u>	<u>Weighted-Average Remaining Contractual Term</u>
Balance at January 1, 2006	35,692,912	\$ 22.28		
Exercised	(2,835,951)	21.60		
Forfeited/Expired	(49,528)	19.77		
Granted	35,000	27.00		
Balance at March 31, 2006	32,842,433	\$ 22.35	\$ 156,184	6.76 yrs.
Exercisable at March 31, 2006	32,807,433	\$ 22.35	\$ 156,180	6.76 yrs.

The total intrinsic value of stock options exercised was approximately \$17,385,000 and \$7,332,000 for the three months ended March 31, 2006 and 2005, respectively.

<b>Restricted Stock</b>	<b>Number</b>	<b>Weighted-Average Grant Date Fair Value</b>
Balance at January 1, 2006	1,283,432	\$ 20.31
Vested	(87,801)	21.04
Forfeited	(13,376)	26.06
Granted	260,182	27.58
Balance at March 31, 2006	1,442,437	\$ 21.53

The total fair value of restricted stock vested was approximately \$1,836,000 and \$2,227,000 for the three month periods ended March 31, 2006 and 2005, respectively.

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At March 31, 2006 the total compensation cost of nonvested stock options and restricted stock awards not yet recognized was \$18.1 million, which will be recognized over a weighted-average period of 5.75 years. No material share-based compensation costs were capitalized during the period ended March 31, 2006.

*Note 4 Pension and Other Postretirement Benefits* Net periodic benefit cost (credit) includes the following components for the three months ended March 31:

(In thousands)	Retirement Plans		Other Postretirement Benefits	
	2006	2005	2006	2005
Service cost	\$ 7,503	\$ 6,700	\$ 159	\$ 258
Interest cost	12,555	11,570	248	570
Expected return on plan assets	(16,561)	(16,463)	(49)	(51)
Amortization of prior service cost (credit)	44	36	(683)	(218)
Amortization of transitional obligation	48	48	11	11
Recognized actuarial loss	7,767	6,764	114	245
Net periodic benefit cost (credit)	\$ 11,356	\$ 8,655	\$ (200)	\$ 815

*Note 5 Contingencies*

**Legal.** Various legal proceedings are pending against AmSouth and its subsidiaries. Some of these proceedings, including class actions, seek relief or allege damages that are substantial. The actions arise in the ordinary course of AmSouth's business and include actions relating to its imposition of certain fees, lending, collections, loan servicing, deposit taking, investment, trust and other activities. It may take a number of years to finally resolve some of these actions because of their complexity as well as other reasons. Additionally, AmSouth and its subsidiaries, which are regulated by multiple federal and state authorities, are the subject of regularly scheduled and special examinations, reviews, investigations and enforcement actions or proceedings. AmSouth may occasionally have disagreements with regulatory authorities and law enforcement agencies resulting from these examinations, reviews, investigations and enforcement actions. Enforcement and compliance-related activity by government agencies has substantially increased. Although it is not possible to determine with certainty AmSouth's potential exposure from these proceedings, which may take a number of years to fully and finally resolve due to their complexity, based upon legal counsel's opinion, Management considers that any liability resulting from the proceedings would not have a material impact on the financial condition or results of operations of AmSouth.

**Income Taxes.** AmSouth's federal and state income tax returns are subject to review and examination by government authorities. In the normal course of these examinations, AmSouth is subject to challenges from federal and state authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. AmSouth is currently under examination by a number of the states in which it does business. AmSouth is also under examination by the Internal Revenue Service (IRS) for the years ended December 31, 2000 through December 31, 2002. AmSouth is currently at IRS Appeals on the issues raised in the IRS examination for the years ended December 31, 1998, September 30, 1999 and December 31, 1999 related to leveraged leasing transactions.

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In connection with the IRS examination mentioned above, the IRS issued Notices of Proposed Adjustments with respect to AmSouth's tax treatment of certain leveraged lease transactions that were entered into during the years under examination. Management believes that AmSouth's treatment of these leveraged lease transactions was in compliance with existing tax case law, applicable statutes and regulations in effect at the time these transactions were entered into and intends to vigorously defend its position. If AmSouth were to settle with the IRS on these Notices of Proposed Adjustments, such a settlement would not have a material impact to the consolidated financial statements based upon accounting guidance currently in effect. However, the FASB has

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recently issued two proposals that, if adopted as currently drafted, would change current accounting guidance. The FASB is still in deliberations on these proposals, but final standards are expected to be issued during the second quarter of 2006. AmSouth is currently reviewing the potential impact of their adoption, and adoption under the guidance as currently proposed is expected to have a material impact to the consolidated financial statements at the effective date of adoption. Both proposals would require that any impact to the consolidated financial statements upon adoption would be recognized as a cumulative effect of a change in accounting principle.

*Note 6 Earnings Per Common Share* The following table sets forth the computation of earnings per common share and diluted earnings per common share:

	Three Months Ended March 31	
	2006	2005
<b>(In thousands, except per share data)</b>		
<b>Earnings per common share computation:</b>		
Numerator:		
Net income	\$ 180,991	\$ 178,645
Denominator:		
Weighted average common shares outstanding	344,855	353,714
Shares issuable under deferred compensation arrangements	578	585
Weighted-average common shares outstanding basic	345,433	354,299
Earnings per common share	\$ 0.52	\$ 0.50
<b>Diluted earnings per common share computation:</b>		
Numerator:		
Net income	\$ 180,991	\$ 178,645
Denominator:		
Weighted average common shares outstanding	344,855	353,714
Shares issuable under deferred compensation arrangements	578	585
Dilutive effect of stock options and restricted stock	5,310	4,513
Weighted-average common shares outstanding diluted	350,743	358,812
Diluted earnings per common share	\$ 0.52	\$ 0.50

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*Note 7 Comprehensive Income* Total comprehensive income consists of net income, the change in the unrealized gains or losses on AmSouth's available-for-sale securities portfolio arising during the period, the change in the effective portion of cash flow hedges marked to market, and the change in the minimum pension liability related to an unfunded pension liability. In the calculation of comprehensive income, certain reclassification adjustments are made to avoid double-counting items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods.

The following tables detail the components of comprehensive income, including reclassification adjustments:

(In thousands)	Three Months Ended March 31					
	2006			2005		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Net income	\$ 260,101	\$ (79,110)	\$ 180,991	\$ 255,067	\$ (76,422)	\$ 178,645
Net unrealized holding gains and losses on available-for-sale securities arising during the period	(83,546)	31,643	(51,903)	(116,105)	43,957	(72,148)
Less: reclassification adjustments for net securities gains realized in net income	530	(199)	331	1,128	(424)	704
Net change in unrealized gains and losses on available-for-sale securities	(84,076)	31,842	(52,234)	(117,233)	44,381	(72,852)
Net unrealized holding gains and losses on derivatives arising during the period	(932)	389	(543)	(6,552)	2,313	(4,239)
Less: reclassification adjustments for losses realized in net income	(2,404)	904	(1,500)	(756)	284	(472)
Net change in unrealized gains and losses on derivative instruments	1,472	(515)	957	(5,796)	2,029	(3,767)
Additional minimum pension liability adjustment		328	328			
Comprehensive income	\$ 177,497	\$ (47,455)	\$ 130,042	\$ 132,038	\$ (30,012)	\$ 102,026

*Note 8 Shareholders' Equity* On April 17, 2003, AmSouth's Board of Directors approved a plan to repurchase up to 25 million shares of the Company's outstanding common stock. The common shares may be repurchased in the open market or in privately negotiated transactions. The reacquired common shares will be held as treasury shares and may be reissued for various corporate purposes, including employee benefit programs. During the three month period ended March 31, 2006, AmSouth repurchased 5.1 million shares, primarily under this authorization, at a cost of \$138.7 million. During the three month period ended March 31, 2005, AmSouth repurchased 5.0 million shares, primarily under this authorization, at a cost of \$126.1 million. As of March 31, 2006, there were 4.0 million shares remaining under this authorization. Cash dividends of \$0.26 per common share were declared in the first three months of 2006.

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On April 20, 2006, AmSouth's Board of Directors approved the repurchase of up to 25 million shares of the Company's outstanding common stock. The common shares may be repurchased in the open market or in privately negotiated transactions. The reacquired common shares may be held as treasury shares and may be reissued for various corporate purposes, including employee benefit programs.

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*Note 9 Business Segment Information* AmSouth has three reportable segments: Consumer Banking, Commercial Banking and Wealth Management. Treasury & Other includes balance sheet management activities that include the investment portfolio, non-deposit funding and the impact of derivatives used in asset/liability management. Income from bank owned life insurance policies, provisions for loan and lease losses that are in excess of or below net charge-offs, gains and losses related to the ineffective portion of derivative hedging instruments, net gains and losses on sales of fixed assets and other assets, taxable-equivalent adjustments associated with lease residual option benefits, the amortization of deposit intangibles, and corporate expenses such as corporate overhead are also shown in Treasury & Other. In addition, Treasury & Other includes the reversal of revenues and expenses associated with Private Client Service customers' loans and deposit balances to eliminate any double counting which occurs as a result of including these revenues and expenses in the Wealth Management segment as well as in either the Commercial or Consumer segments.

The following is a summary of the segment performance for the three months ended March 31:

<u>(In thousands)</u>	<u>Consumer Banking</u>	<u>Commercial Banking</u>	<u>Wealth Management</u>	<u>Treasury &amp; Other</u>	<u>Total</u>
<b>2006</b>					
Net interest income before internal funding	\$ 220,548	\$ 176,514	\$ 45,216	\$ (44,558)	\$ 397,720
Internal funding	59,359	(59,583)	3,887	(3,663)	-0-
Net interest income/(expense)	279,907	116,931	49,103	(48,221)	397,720
Noninterest revenues	120,478	35,103	46,910	17,192	219,683
Total revenues	400,385	152,034	96,013	(31,029)	617,403
Provision for loan and lease losses	9,944	29,390	487	(12,521)	27,300
Noninterest expenses	199,628	48,237	54,045	28,092	330,002
Income/(loss) before income taxes	190,813	74,407	41,481	(46,600)	260,101
Income taxes/(benefits)	71,746	27,977	13,642	(34,255)	79,110
Segment net income/(loss)	\$ 119,067	\$ 46,430	\$ 27,839	\$ (12,345)	\$ 180,991
Revenues from external customers	\$ 341,026	\$ 211,617	\$ 39,505	\$ 25,255	\$ 617,403
Ending assets	23,059,297	16,131,008	6,624,438	7,043,419	