

AMSOUTH BANCORPORATION

Form 10-Q

November 08, 2005

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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 September 30, 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)

(205) 320-7151

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(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

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 October 31, 2005, AmSouth Bancorporation had 347,598,000 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. Factors which could cause results to differ materially from current Management expectations 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' 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.

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)**

	September 30 2005	December 31 2004	September 30 2004
(Dollars in thousands)			
ASSETS			
Cash and due from banks	\$ 1,223,228	\$ 966,993	\$ 1,073,175
Trading securities	39,186	1,883	1,121
Available-for-sale securities	6,033,746	6,322,665	6,516,319
Held-to-maturity securities (market value of \$5,759,141, \$6,199,451 and \$6,089,342, respectively)	5,821,967	6,188,010	6,068,666
Loans held for sale	460,816	103,273	240,879
Loans	35,064,456	33,512,398	33,210,442
Less: Allowance for loan losses	384,647	366,774	381,255
Unearned income	729,287	711,061	708,221
	<u>33,950,522</u>	<u>32,434,563</u>	<u>32,120,966</u>
Net loans	33,950,522	32,434,563	32,120,966
Other interest-earning assets	88,476	36,149	63,151
Premises and equipment, net	1,088,322	1,060,574	1,053,923
Cash surrender value bank owned life insurance	1,144,048	1,111,934	1,100,576
Accrued interest receivable and other assets	1,255,074	1,322,327	1,449,086
	<u>\$ 51,105,385</u>	<u>\$ 49,548,371</u>	<u>\$ 49,687,862</u>
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits and interest-bearing liabilities:			
Deposits:			
Noninterest-bearing demand	\$ 8,022,022	\$ 7,182,806	\$ 6,798,077
Interest-bearing demand	6,838,125	7,115,545	6,817,361
Money market and savings	9,928,034	8,810,972	7,814,945
Time	9,710,125	9,476,075	9,560,652
Foreign	1,181,819	1,647,381	928,381
	<u>35,680,125</u>	<u>34,232,779</u>	<u>31,919,416</u>
Total deposits	35,680,125	34,232,779	31,919,416
Federal funds purchased and securities sold under agreements to repurchase	3,374,744	2,291,988	2,497,632
Other borrowed funds	681,618	429,098	1,964,121
Long-term Federal Home Loan Bank advances	2,388,222	4,371,745	5,678,135
Other long-term debt	3,634,730	2,899,773	2,108,128
	<u>45,759,439</u>	<u>44,225,383</u>	<u>44,167,432</u>
Total deposits and interest-bearing liabilities	45,759,439	44,225,383	44,167,432

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Accrued expenses and other liabilities	1,768,491	1,754,147	2,069,872
Total liabilities	47,527,930	45,979,530	46,237,304
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 - 416,723,000, 416,748,000 and 416,753,000 shares, respectively	416,723	416,748	416,753
Additional paid-in capital	734,850	726,411	714,278
Retained earnings	3,755,478	3,492,873	3,406,363
Cost of common stock in treasury - 68,161,000, 60,438,000 and 62,118,000 shares, respectively	(1,196,160)	(986,510)	(1,019,471)
Deferred compensation on restricted stock	(14,733)	(12,947)	(13,697)
Accumulated other comprehensive loss	(118,703)	(67,734)	(53,668)
Total shareholders' equity	3,577,455	3,568,841	3,450,558
	\$ 51,105,385	\$ 49,548,371	\$ 49,687,862

See notes to consolidated financial statements.

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	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2005	2004	2005	2004
(In thousands except per share data)				
INTEREST INCOME				
Loans	\$ 481,387	\$ 399,030	\$ 1,366,931	\$ 1,151,347
Available-for-sale securities	69,887	81,178	219,751	245,174
Held-to-maturity securities	68,828	67,030	212,006	193,557
Trading securities	278	39	655	136
Loans held for sale	5,675	2,863	9,787	8,760
Other interest-earning assets	459	133	1,070	579
Total interest income	626,514	550,273	1,810,200	1,599,553
INTEREST EXPENSE				
Interest-bearing demand deposits	23,748	10,237	60,449	26,223
Money market and savings deposits	42,394	10,599	108,718	29,602
Time deposits	79,496	59,636	213,630	179,396
Foreign deposits	11,084	4,361	24,584	10,548
Federal funds purchased and securities sold under agreements to repurchase	23,497	11,707	57,358	26,537
Other borrowed funds	4,563	2,555	8,620	6,441
Long-term Federal Home Loan Bank advances	31,193	61,016	110,025	181,960
Other long-term debt	35,806	14,256	93,692	42,033
Total interest expense	251,781	174,367	677,076	502,740
NET INTEREST INCOME	374,733	375,906	1,133,124	1,096,813
Provision for loan losses	34,800	28,800	73,100	83,500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	339,933	347,106	1,060,024	1,013,313
NONINTEREST REVENUES				
Service charges on deposit accounts	95,141	96,508	271,660	284,100
Trust income	29,439	28,587	89,802	87,402
Consumer investment services income	18,668	17,565	57,575	59,906
Interchange income	22,884	19,649	66,793	56,576
Commercial credit fee income	12,178	10,369	37,019	32,043
Bank owned life insurance policies	11,386	11,377	32,479	34,656
Bankcard income	4,150	7,697	16,466	22,062
Mortgage income	5,873	4,164	14,655	15,565
Portfolio income	301	5,920	4,733	23,732
Net gain on sale of mutual fund management unit	44,007	-0-	44,007	-0-
Other noninterest revenues	15,622	11,335	63,047	35,811
Total noninterest revenues	259,649	213,171	698,236	651,853

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NONINTEREST EXPENSES					
Salaries and employee benefits	174,055	162,517	525,665	503,734	
Net occupancy	38,342	37,953	113,629	109,531	
Equipment	31,876	31,807	95,586	93,319	
Postage and office supplies	10,071	10,680	30,844	34,635	
Marketing	10,698	8,594	27,637	29,589	
Professional fees	12,130	7,339	27,378	25,368	
Settlement agreements and related professional fees	-0-	53,972	-0-	53,972	
Other noninterest expenses	59,733	49,616	150,625	146,374	
Total noninterest expenses	336,905	362,478	971,364	996,522	
INCOME BEFORE INCOME TAXES					
Income taxes	262,677	197,799	786,896	668,644	
	82,349	78,220	243,324	222,003	
NET INCOME	\$ 180,328	\$ 119,579	\$ 543,572	\$ 446,641	
Average common shares outstanding	basic	349,346	352,838	351,881	351,882
Earnings per common share	basic	\$ 0.52	\$ 0.34	\$ 1.54	\$ 1.27
Average common shares outstanding	diluted	354,654	358,272	356,816	357,169
Earnings per common share	diluted	\$ 0.51	\$ 0.33	\$ 1.52	\$ 1.25

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	Comprehensive Loss	Other	
(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-	446,641	-0-	-0-	-0-	446,641	
Other comprehensive income, net of tax:									
Net change in unrealized gains and losses on available-for-sale securities*	-0-	-0-	-0-	-0-	-0-	-0-	(11,418)	(11,418)	
Net change in unrealized gains and losses on derivative instruments*	-0-	-0-	-0-	-0-	-0-	-0-	(1,851)	(1,851)	
Additional minimum pension liability adjustment	-0-	-0-	-0-	-0-	-0-	-0-	(139)	(139)	
Comprehensive income								433,233	
Cash dividends declared (\$0.72 per share)	-0-	-0-	-0-	(255,091)	-0-	-0-	-0-	(255,091)	
Common stock transactions:									
Purchase of common stock	(2,098)	-0-	-0-	-0-	(50,049)	-0-	-0-	(50,049)	
Employee stock plans, net	4,462	(125)	(2,500)	(11,421)	99,080	804	-0-	85,838	
Direct stock purchase and dividend reinvestment plan	380	-0-	1,115	(2,299)	8,142	-0-	-0-	6,958	
BALANCE AT SEPTEMBER 30, 2004	354,635	\$ 416,753	\$ 714,278	\$ 3,406,363	\$ (1,019,471)	\$ (13,697)	\$ (53,668)	\$ 3,450,558	
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-	543,572	-0-	-0-	-0-	543,572	
Other comprehensive income, net of tax:									
Net change in unrealized gains and losses on available-for-sale securities*	-0-	-0-	-0-	-0-	-0-	-0-	(50,687)	(50,687)	
Net change in unrealized gains and losses on derivative instruments*	-0-	-0-	-0-	-0-	-0-	-0-	(282)	(282)	
Comprehensive income								492,603	
Cash dividends declared (\$0.75 per share)	-0-	-0-	-0-	(264,794)	-0-	-0-	-0-	(264,794)	
Common stock transactions:									
Purchase of common stock	(12,201)	-0-	-0-	-0-	(321,070)	-0-	-0-	(321,070)	
Employee stock plans, net	4,129	(25)	7,633	(16,169)	103,782	(1,786)	-0-	93,435	
Direct stock purchase and dividend reinvestment plan	324	-0-	806	(4)	7,638	-0-	-0-	8,440	
BALANCE AT SEPTEMBER 30, 2005	348,562	\$ 416,723	\$ 734,850	\$ 3,755,478	\$ (1,196,160)	\$ (14,733)	\$ (118,703)	\$ 3,577,455	

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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.

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	Nine Months Ended September 30	
	2005	2004
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$ 543,572	\$ 446,641
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	73,100	83,500
Depreciation and amortization of premises and equipment	86,118	81,851
Amortization of premiums and discounts on held-to-maturity securities and available-for-sale securities	19,105	32,089
Originations and purchases of loans held for sale	(1,370,323)	(1,014,748)
Proceeds from sales of loans held for sale	1,048,433	884,112
Net gains on sales of available-for-sale securities	(4,120)	(21,532)
Net gains on sales of loans held for sale and mortgage loans	(12,009)	(9,606)
Net gains on sales of home equity loans	(6,824)	(4,884)
Net gains on sales of student loans	(2,224)	(1,560)
Net gain on sale of recreational vehicle and marine loans	-0-	(2,780)
Net gain on sale of mutual fund management unit	(44,007)	-0-
Net (increase) decrease in trading securities	(37,303)	1,618
Net increase in accrued interest receivable, bank-owned life insurance and other assets	(10,016)	(40,110)
Net increase (decrease) in accrued expenses and other liabilities	42,332	(59,898)
Provision for deferred income taxes	87,892	149,467
Amortization of intangible assets	1,969	3,369
Net gain on prepayment of Federal Home Loan Bank advances	(11,791)	-0-
Other operating activities, net	94,308	92,997
	<u>498,212</u>	<u>620,526</u>
INVESTING ACTIVITIES		
Proceeds from maturities and prepayments of available-for-sale securities	722,194	911,120
Proceeds from sales of available-for-sale securities	611,538	1,746,674
Purchases of available-for-sale securities	(1,172,063)	(2,057,117)
Proceeds from maturities, prepayments and calls of held-to-maturity securities	888,970	1,284,069
Purchases of held-to-maturity securities	(545,962)	(2,352,380)
Net increase in other interest-earning assets	(52,327)	(22,933)
Net increase in loans, excluding sales of loans	(2,867,142)	(3,788,075)
Purchases of mortgage loans	-0-	(143,946)
Proceeds from sales of mortgage loans	455,025	154,844
Proceeds from sales of home equity loans	460,124	156,552
Proceeds from sales of student loans	227,812	184,457
Proceeds from sale of recreational vehicle and marine loans	-0-	87,149
Net purchases of premises and equipment	(113,866)	(171,082)
Net cash received from sale of mutual fund management unit	65,000	-0-
	<u>(1,320,697)</u>	<u>(4,010,668)</u>
FINANCING ACTIVITIES		
Net increase in deposits	1,447,501	1,479,356
Net increase in federal funds purchased and securities sold under agreements to repurchase	1,082,756	471,379
Net increase in other borrowed funds	252,520	1,620,919

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Proceeds from issuance of long-term Federal Home Loan Bank advances and other long-term debt	770,368	350,587
Payments for maturing Federal Home Loan Bank advances and other long-term debt	(670,322)	(410,568)
Payments for prepayment of Federal Home Loan Bank advances	(1,313,209)	-0-
Cash dividends paid	(266,525)	(252,096)
Proceeds from employee stock plans, direct stock purchase and dividend reinvestment plan	96,701	89,803
Purchase of common stock	(321,070)	(50,049)
	<u>1,078,720</u>	<u>3,299,331</u>
Net cash provided by financing activities	1,078,720	3,299,331
	<u>256,235</u>	<u>(90,811)</u>
Increase (Decrease) in cash and cash equivalents	256,235	(90,811)
Cash and cash equivalents at beginning of period	966,993	1,163,986
	<u>\$ 1,223,228</u>	<u>\$ 1,073,175</u>
Cash and cash equivalents at end of period	\$ 1,223,228	\$ 1,073,175

See notes to consolidated financial statements.

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AMSOUTH BANCORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Nine months ended September 30, 2005 and 2004

Note 1 Basis of Presentation The consolidated financial statements conform to accounting principles generally accepted in the United States of America. 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, 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) 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). 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 annual compensation expense of approximately \$0.05 to \$0.06 per share as a result of the adoption of Statement 123R and the transition method is expected to be the modified prospective 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.

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In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 (Statement 153). Statement 153 amends

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Accounting Principles Board Opinion No. 29, *Accounting for Nonmonetary Transactions* (APB 29) to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of Statement 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of Statement 153 to have a material effect on the consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3 (Statement 154). Statement 154 changes the requirements for the accounting for and reporting of a change in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of Statement 154 to have a material effect on the consolidated financial statements.

Note 3 Cash Flows The following table summarizes supplemental cash flow information for the nine months ended September 30:

<u>(In thousands)</u>	<u>2005</u>	<u>2004</u>
Cash paid during the period for:		
Interest	\$ 650,531	\$ 497,042
Income taxes	181,321	162,572
Transfers from loans to foreclosed properties	28,135	32,380
Transfers from foreclosed properties to loans	414	831

Note 4 Stock-Based Compensation AmSouth has long-term incentive compensation plans which permit the granting of incentive awards in the form of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance shares, and performance units. 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. Options granted generally vest between one and three years from the date of grant, with substantially all of the 2005 and 2004 option grants vesting ratably over three years. All of the options granted during the first nine months of 2005 and 2004 expire ten years from the date of grant. All other options outstanding generally expire not later than ten years from the date of grant.

AmSouth has adopted the disclosure-only provisions of Statement 123, which allows an entity to continue to measure compensation costs for those plans using the intrinsic value-based method of accounting prescribed by APB 25. AmSouth has elected to follow APB 25 and related interpretations in accounting for its employee stock options. Compensation cost for fixed and variable stock-based awards is measured by the excess, if any, of the fair market price of the underlying stock over the amount the individual is required to pay. Compensation cost for fixed awards is measured at the grant date. No option-based employee compensation cost is currently reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Compensation expense related to restricted stock is reflected in the table below. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period.

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AmSouth's pro forma information is as follows:

(In thousands, except per share data)	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Net income:				
As reported	\$ 180,328	\$ 119,579	\$ 543,572	\$ 446,641
Add: Stock-based compensation expense included in reported net income, net of tax	688	517	1,888	1,340
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax	(6,314)	(8,441)	(20,054)	(24,742)
Pro forma	\$ 174,702	\$ 111,655	\$ 525,406	\$ 423,239
Earnings per common share:				
As reported	\$ 0.52	\$ 0.34	\$ 1.54	\$ 1.27
Pro forma	0.50	0.32	1.49	1.20
Diluted earnings per common share:				
As reported	\$ 0.51	\$ 0.33	\$ 1.52	\$ 1.25
Pro forma	0.49	0.31	1.47	1.19

This pro-forma information includes expenses related to all stock options granted during the third quarter and first nine months of 2005 and 2004, as well as the expense related to the unvested portion of prior years' grants and assumes that the fair value for these options 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 periods.

The following table details the weighted-average assumptions used and estimated fair value:

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Risk-free interest rate	4.07%	4.11%	3.61%	3.92%
Dividend yield	3.80	3.94	3.95	3.99
Volatility factor	19.68	30.72	21.58	30.89
Weighted-average expected life	4.2yrs	7.0yrs	4.2yrs	7.0yrs
Estimated fair value	\$ 3.73	\$ 6.00	\$ 3.60	\$ 5.69

AmSouth's stock option and restricted stock grants have accelerated vesting provisions that take effect when an employee retires. AmSouth has recognized the effect of these acceleration provisions on the date the employee actually retires (the explicit service period). Upon adoption of Statement 123R, AmSouth will be required to recognize the effect of these acceleration provisions when an employee becomes retirement-eligible. AmSouth will continue to recognize pro-forma compensation cost over the explicit service period for awards granted prior to the adoption of Statement 123R. Had AmSouth recognized the pro forma expense on the date an employee became retirement-eligible, the stock-based compensation expense, net of tax, disclosed above for 2005 would be higher by approximately \$6 million, the impact of which would be one-time only.

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Note 5 Pension and Other Postretirement Benefits Net periodic benefit cost includes the following components for the three months ended September 30:

<u>(In thousands)</u>	<u>Retirement Plans</u>		<u>Other Postretirement Benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	Service cost	\$ 6,701	\$ 5,358	\$ 258
Interest cost	11,570	10,515	571	601
Expected return on plan assets	(16,464)	(16,198)	(52)	(55)
Amortization of prior service cost/(credit)	35	11	(217)	(218)
Amortization of transitional obligation	48	48	11	11
Recognized actuarial loss	6,764	4,028	245	304
Net periodic benefit cost	\$ 8,654	\$ 3,762	\$ 816	\$ 861

Net periodic benefit cost includes the following components for the nine months ended September 30:

<u>(In thousands)</u>	<u>Retirement Plans</u>		<u>Other Postretirement Benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	Service cost	\$ 20,101	\$ 16,075	\$ 774
Interest cost	34,710	31,543	1,711	1,804
Expected return on plan assets	(49,390)	(48,595)	(154)	(164)
Amortization of prior service cost/(credit)	107	34	(653)	(653)
Amortization of transitional obligation	144	144	33	33
Recognized actuarial loss	20,292	12,085	735	911
Net periodic benefit cost	\$ 25,964	\$ 11,286	\$ 2,446	\$ 2,585

In October of 2005, AmSouth made a \$5.8 million discretionary contribution to its retirement plan.

On December 8, 2003, the President signed the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The assumptions and measures contained in this note relating to the postretirement benefit plans do not reflect any amount associated with the subsidy because starting January 1, 2006, AmSouth will not provide any benefits that will qualify for this subsidy.

Note 6 Contingencies

Legal. Various legal proceedings are pending against AmSouth and its subsidiaries. Some of these proceedings 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 certain of its subsidiaries, which are regulated by one or more federal and state authorities, are the subject of regularly scheduled and special examinations, reviews and investigations conducted by such regulatory authorities and by law enforcement agencies resulting from these examinations, reviews and investigations. Although it is not possible to determine with certainty AmSouth's potential exposure from these proceedings, based upon legal counsel's opinion, Management considers that any liability resulting from the proceedings, including the BISYS matter discussed below, would not have a material impact on the financial condition or results of operations of AmSouth.

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BISYS Matter. As previously disclosed, AmSouth Bank has received a Wells Notice from the regional office of the SEC in Los Angeles indicating that the staff of the SEC intends to recommend that the Commission bring a civil action against AmSouth Bank and AmSouth Asset Management, Inc. for possible violations of the federal securities laws relating to its mutual fund management unit. See Note 11 regarding the sale of this unit. The potential action arose from the SEC's investigation of the past practices of the mutual fund services unit of the BISYS Group, Inc., an outside company that provided fund administration and other services to the AmSouth Funds and many other bank-owned mutual fund families. AmSouth believes the SEC investigation primarily relates to past arrangements under which BISYS used a portion of the fees paid to it by the fund family to pay for marketing and other expenses. AmSouth has been cooperating extensively with the SEC in the BISYS investigation.

A Wells Notice is not a formal allegation or proof of wrongdoing. The notice provides AmSouth the opportunity to formally respond to the SEC staff before the staff recommends whether the SEC should take action. AmSouth has submitted its response to the SEC staff.

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.

AmSouth has certain leasing investments that are accounted for as leveraged leases under the guidance of Statement of Financial Accounting Standards No. 13, Accounting for Leases (Statement 13). Under Statement 13, the net investment recorded for leveraged leases on the consolidated balance sheet represents the present value of the net cash flows from the leases, including those that are tax related. Total income is recognized proportionately over the term of a leveraged lease in each year in which the net investment in the lease is positive. 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 Proposed Adjustments, such a settlement would not have a material impact to the consolidated financial statements based upon accounting guidance currently in effect. Under Statement 13, any changes in estimates or assumptions that do not affect total net income for a lease do not affect the timing of income recognition. However, the FASB has recently issued two proposals that, if adopted as currently drafted, would change current accounting guidance.

On July 14, 2005, the FASB issued an Exposure Draft of a proposed Interpretation, Accounting for Uncertain Tax Positions—an interpretation of FASB Statement No. 109, proposing guidance on the recognition and measurement of certain positions taken in tax return filings as well as the related accrual of interest and penalties and classification of liabilities resulting from these positions.

Concurrently, the FASB issued an Exposure Draft of a proposed Staff Position, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease. This Exposure Draft specifies that a change or projected change in the timing of cash flows related to a leveraged lease transaction will result in a recalculation of the lease model and of the timing and/or amount of income recognized by a lessor for that lease by period. These changes include changes in cash flows related to the timing of deductions and assessments of additional taxes, interest, and/or penalties as a result of an actual or expected

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settlement with the IRS. Such changes in the expected timing of cash flows resulting from changes in the timing of tax deductions do not result in a reduction of the total net income recognized over the life of the lease. Thus, any current reductions to income previously recognized from the lease would be recognized in future periods. However, a reduction in the total income earned over the life of the lease does result if there are interest charges and/or penalties related to tax expense.

Both proposals are subject to comment periods before their final adoption and as drafted, would be effective for fiscal years ending after December 15, 2005. However, the FASB is still in deliberations on these proposals, and the provisions and effective dates may be subject to change. 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 7 Earnings Per Common Share The following table sets forth the computation of basic earnings per common share and diluted earnings per common share:

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
(In thousands except per share data)				
Basic earnings per common share computation:				
Numerator:				
Net income	\$ 180,328	\$ 119,579	\$ 543,572	\$ 446,641
Denominator:				
Average common shares outstanding	348,781	352,838	351,311	351,882
Shares issuable under deferred compensation arrangements	565	-0-	570	-0-
Average common shares outstanding basic	349,346	352,838	351,881	351,882
Basic earnings per common share	\$ 0.52	\$ 0.34	\$ 1.54	\$ 1.27
Diluted earnings per common share computation:				
Numerator:				
Net income	\$ 180,328	\$ 119,579	\$ 543,572	\$ 446,641
Denominator:				
Average common shares outstanding	348,781	352,838	351,311	351,882
Shares issuable under deferred compensation arrangements	565	-0-	570	-0-
Dilutive effect of options issued	5,308	5,434	4,935	