

BANCORPSOUTH INC  
Form 10-Q  
November 08, 2007

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2007**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-12991  
BANCORPSOUTH, INC.**

(Exact name of registrant as specified in its charter)

**Mississippi**

(State or other jurisdiction of incorporation or  
organization)

**64-0659571**

(I.R.S. Employer Identification No.)

**One Mississippi Plaza, 201 South Spring Street**

**Tupelo, Mississippi**

(Address of principal executive offices)

**38804**

(Zip Code)

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

**NOT APPLICABLE**

(Former name, former address, and former fiscal year, if changed since last report)

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

Yes  No

Indicate by check mark whether the registrant 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 November 5, 2007, the registrant had outstanding 82,237,858 shares of common stock, par value \$2.50 per share.

**BANCORPSOUTH, INC.**  
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**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Report may not be based on historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as anticipate, believe, estimate, expect, foresee, might, will, intend, could, would or plan, or future or conditional verb tenses, and variations or negatives of such terms. These forward-looking statements include, without limitation, those relating to the Company's net interest margin, payment of dividends, prepayment of Junior Subordinated Debt Securities, unrecognized tax benefits, effective tax rates, credit losses, pension benefits, off-balance sheet arrangements, amortization expense, valuation of mortgage servicing rights, key indicators of the Company's financial performance (such as return on average assets and return on average shareholders' equity), capital resources, liquidity needs and strategies, future acquisitions to further the Company's business strategies, the effect of certain legal claims, the impact of federal and state regulatory requirements for capital, additional share repurchases under the Company's stock repurchase program, diversification of the Company's revenue stream and the impact of recent accounting pronouncements. We caution you not to place undue reliance on the forward-looking statements contained in this report, in that actual results could differ materially from those indicated in such forward-looking statements as a result of a variety of factors. These factors include, but are not limited to, the ability of the Company to increase noninterest revenue and expand noninterest revenue business, the ability of the Company to fund growth with lower cost liabilities, the ability of the Company to maintain

credit quality, the ability of the Company to provide and market competitive services and products, the ability of the Company to diversify revenue, the ability of the Company to attract, train and retain qualified personnel, the ability of the Company to operate and integrate new technology, changes in consumer preferences, changes in the Company's operating or expansion strategy, changes in economic conditions and government fiscal and monetary policies, legislation and court decisions related to the amount of damages recoverable in legal proceedings, fluctuations in prevailing interest rates and the effectiveness of the Company's interest rate hedging strategies, the ability of the Company to balance interest rate, credit, liquidity and capital risks, the ability of the Company to collect amounts due under loan agreements and attract deposits, laws and regulations affecting financial institutions in general, the ability of the Company to identify and effectively integrate potential acquisitions, the ability of the Company to manage its growth and effectively serve an expanding customer and market base, geographic concentrations of the Company's assets and susceptibility to economic downturns in that area, availability of and costs associated with maintaining and/or obtaining adequate and timely sources of liquidity, the ability of the Company to compete with other financial services companies, the ability of the Company to repurchase its common stock on favorable terms, possible adverse rulings, judgments, settlements and other outcomes of pending or threatened litigation, other factors generally understood to affect the financial condition or results of financial services companies and other factors detailed from time to time in the Company's press releases and filings with the Securities and Exchange Commission. We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date of this report.

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**PART I.**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

BANCORPSOUTH, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets

	September 30, 2007 (Unaudited) (Dollars in thousands, except per share amounts)	December 31, 2006 (1)
<b>ASSETS</b>		
Cash and due from banks	\$ 273,616	\$ 444,033
Interest bearing deposits with other banks	18,069	7,418
Held-to-maturity securities, at amortized cost	1,706,350	1,723,420
Available-for-sale securities, at fair value	1,018,301	1,041,999
Federal funds sold and securities purchased under agreement to resell	57,000	145,957
Loans and leases	9,103,307	7,917,523
Less: Unearned income	48,582	46,052
Allowance for credit losses	112,134	98,834
Net loans	8,942,591	7,772,637
Loans held for sale	103,722	89,323
Premises and equipment, net	312,832	287,215
Accrued interest receivable	101,118	89,090
Goodwill	254,587	143,718
Other assets	346,131	295,711
<b>TOTAL ASSETS</b>	<b>\$ 13,134,317</b>	<b>\$ 12,040,521</b>
<b>LIABILITIES</b>		
Deposits:		
Demand: Noninterest bearing	\$ 1,687,157	\$ 1,817,223
Interest bearing	3,215,632	2,856,295
Savings	705,519	715,587
Other time	4,582,509	4,321,473
Total deposits	10,190,817	9,710,578
Federal funds purchased and securities sold under agreement to repurchase	797,177	672,438
Short-term Federal Home Loan Bank borrowings	500,000	200,000
Accrued interest payable	42,509	36,270
Junior subordinated debt securities	163,405	144,847
Long-term Federal Home Loan Bank borrowings	141,605	135,707
Other liabilities	129,065	114,096
<b>TOTAL LIABILITIES</b>	<b>11,964,578</b>	<b>11,013,936</b>

SHAREHOLDERS EQUITY

Common stock, \$2.50 par value per share Authorized 500,000,000 shares, Issued 82,265,358 and 79,109,573 shares, respectively	205,663	197,774
Capital surplus	195,323	113,721
Accumulated other comprehensive loss	(18,004)	(24,742)
Retained earnings	786,757	739,832
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>1,169,739</b>	<b>1,026,585</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 13,134,317</b>	<b>\$ 12,040,521</b>

(1) Derived from audited financial statements.  
See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(In thousands, except for per share amounts)			
<b>INTEREST REVENUE:</b>				
Loans and leases	\$ 174,787	\$ 143,712	\$ 497,745	\$ 405,481
Deposits with other banks	316	295	870	612
Federal funds sold and securities purchased under agreement to resell	232	609	3,376	4,431
Held-to-maturity securities:				
Taxable	17,585	16,107	51,252	46,478
Tax-exempt	2,077	2,017	6,136	5,981
Available-for-sale securities:				
Taxable	10,554	10,405	30,985	32,698
Tax-exempt	960	1,215	3,085	3,854
Loans held for sale	1,454	878	4,211	2,987
<b>Total interest revenue</b>	<b>207,965</b>	<b>175,238</b>	<b>597,660</b>	<b>502,522</b>
<b>INTEREST EXPENSE:</b>				
Deposits:				
Interest bearing demand	22,189	15,514	64,068	43,916
Savings	2,503	2,089	7,367	5,827
Other time	55,728	45,361	163,172	123,784
Federal funds purchased and securities sold under agreement to repurchase	9,151	8,498	26,258	20,949
Other	10,478	7,378	23,553	18,498
<b>Total interest expense</b>	<b>100,049</b>	<b>78,840</b>	<b>284,418</b>	<b>212,974</b>
<b>Net interest revenue</b>	<b>107,916</b>	<b>96,398</b>	<b>313,242</b>	<b>289,548</b>
Provision for credit losses	5,727	2,526	14,925	2,252
<b>Net interest revenue, after provision for credit losses</b>	<b>102,189</b>	<b>93,872</b>	<b>298,317</b>	<b>287,296</b>
<b>NONINTEREST REVENUE:</b>				
Mortgage lending	100	41	7,363	6,937
Credit card, debit card and merchant fees	7,667	6,447	21,932	18,988
Service charges	17,281	16,247	50,354	46,862
Trust income	2,487	2,344	7,158	6,685
Security gains, net	7	9	24	36
Insurance commissions	17,542	15,977	55,001	47,139
Other	12,810	8,169	34,653	28,957

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Total noninterest revenue	57,894	49,234	176,485	155,604
NONINTEREST EXPENSE:				
Salaries and employee benefits	63,269	58,453	190,748	174,402
Occupancy, net of rental income	8,959	8,598	26,131	23,799
Equipment	6,057	5,896	18,136	17,481
Other	28,066	25,714	82,874	77,331
Total noninterest expense	106,351	98,661	317,889	293,013
Income before income taxes	53,732	44,445	156,913	149,887
Income tax expense	17,475	20,568	51,198	52,766
Net income	\$ 36,257	\$ 23,877	\$ 105,715	\$ 97,121
Earnings per share: Basic	\$ 0.44	\$ 0.30	\$ 1.30	\$ 1.23
Diluted	\$ 0.44	\$ 0.30	\$ 1.30	\$ 1.22
Dividends declared per common share	\$ 0.21	\$ 0.20	\$ 0.62	\$ 0.59

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2007	2006
	(In thousands)	
<b>Operating Activities:</b>		
Net income	\$ 105,715	\$ 97,121
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	14,925	2,252
Depreciation and amortization	20,858	18,910
Deferred taxes	6,234	863
Amortization of intangibles	3,758	3,549
Amortization of debt securities premium and discount, net	4,636	10,471
Security gains, net	(20)	(36)
Net deferred loan origination expense	(6,065)	(5,451)
Incremental tax benefit from exercise of stock options	(1,155)	(1,154)
Increase in interest receivable	(7,934)	(13,369)
Increase in interest payable	3,848	12,914
Realized gain on student loans sold	(2,221)	(2,806)
Proceeds from student loans sold	82,853	104,850
Origination of student loans held for sale	(87,500)	(92,778)
Realized gain on mortgages sold	(8,118)	(3,517)
Proceeds from mortgages sold	647,014	417,520
Origination of mortgages held for sale	(637,138)	(425,588)
Increase in bank-owned life insurance	(5,241)	(4,600)
Other, net	(39,229)	(32,072)
 Net cash provided by operating activities	 95,220	 87,079
<b>Investing activities:</b>		
Proceeds from calls and maturities of held-to-maturity securities	167,075	294,342
Proceeds from calls and maturities of available-for-sale securities	455,247	273,679
Proceeds from sales of available-for-sale and trading securities		250
Purchases of held-to-maturity securities	(150,931)	(567,645)
Purchases of available-for-sale securities	(408,731)	(109,568)
Net decrease in short-term investments	91,766	388,680
Net increase in loans and leases	(413,246)	(409,037)
Purchases of premises and equipment	(26,832)	(40,128)
Proceeds from sale of premises and equipment	1,225	1,445
Net cash paid for acquisitions	(60,449)	(4,840)
Other, net	(1,016)	3,011
 Net cash used in investing activities	 (345,892)	 (169,811)
<b>Financing activities:</b>		
Net increase (decrease) in deposits	(122,176)	(114,884)

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Net increase in short-term debt and other liabilities	280,360	164,893
Repayment of long-term debt	(13,102)	(1,132)
Issuance of common stock	9,252	4,740
Purchase of common stock	(14,545)	(10,143)
Incremental tax benefit from exercise of stock options	1,155	1,154
Payment of cash dividends	(50,038)	(46,128)
Net cash provided by (used in) financing activities	90,906	(1,500)
Decrease in cash and cash equivalents	(159,766)	(84,232)
Cash and cash equivalents at beginning of period	451,451	468,468
Cash and cash equivalents at end of period	\$ 291,685	\$ 384,236

See accompanying notes to consolidated financial statements.

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**BANCORPSOUTH, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**NOTE 1 BASIS OF FINANCIAL STATEMENT PRESENTATION AND PRINCIPLES OF CONSOLIDATION**

The accompanying unaudited interim consolidated financial statements of BancorpSouth, Inc. (the Company) have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which the Company operates. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included and all such adjustments were of a normal recurring nature. The results of operations for the three-month and nine-month periods ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year. Certain 2006 amounts have been reclassified to conform with the 2007 presentation. Also, beginning March 1, 2007, the financial statements include the accounts of The Signature Bank. See Note 12, Business Combinations, for further information regarding The Signature Bank.

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, BancorpSouth Bank (the Bank) and Risk Advantage, Inc., and the Bank's wholly-owned subsidiaries, Century Credit Life Insurance Company, Personal Finance Corporation of Tennessee, BancorpSouth Insurance Services, Inc., BancorpSouth Investment Services, Inc. and BancorpSouth Municipal Development Corporation.

**NOTE 2 LOANS AND LEASES**

The composition of the loan and lease portfolio by collateral type as of the dates indicated was as follows:

	September 30, 2007	September 30, 2006	December 31, 2006
	(In thousands)		
Commercial and agricultural	\$ 1,241,954	\$ 986,207	\$ 968,915
Consumer and installment	423,159	385,856	388,212
Real estate mortgage:			
One-to-four family	2,561,889	2,639,803	2,690,893
Other	4,330,303	3,452,339	3,514,598
Lease financing	291,424	310,989	312,313
Other	254,578	44,214	42,592
<b>Total</b>	<b>\$ 9,103,307</b>	<b>\$ 7,819,408</b>	<b>\$ 7,917,523</b>

The following table presents information concerning non-performing loans as of the dates indicated:

	September 30, 2007	September 30, 2006	December 31, 2006
	(In thousands)		
Non-accrual loans	\$ 7,301	\$ 6,289	\$ 6,603
Loans 90 days or more past due	23,158	16,859	15,282
Restructured loans	878	1,952	1,571

Total non-performing loans	\$ 31,337	\$ 25,100	\$	23,456
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The following table summarizes the changes in the allowance for credit losses for the periods indicated:

	Nine months ended		Year ended
	September 30,		December
	2007	2006	31,
	2006		
	(In thousands)		
Balance at beginning of period	\$ 98,834	\$ 101,500	\$ 101,500
Provision charged to expense	14,925	2,252	8,577
Recoveries	3,279	3,927	4,860
Loans and leases charged off	(11,057)	(10,288)	(16,103)
Acquisition	6,153		
Balance at end of period	\$ 112,134	\$ 97,391	\$ 98,834

**NOTE 4 SECURITIES**

The following table summarizes information pertaining to temporarily impaired held-to-maturity and available-for-sale securities with continuous unrealized loss positions at September 30, 2007:

	Continuous Unrealized Loss Position					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
<b>Held-to-maturity securities:</b>						
U.S. Treasury	\$	\$	\$	\$	\$	\$
U.S. Government agencies	24,618	300	626,805	7,636	651,423	7,936
Obligations of states and political subdivisions	22,572	390	59,195	756	81,767	1,146
Total	\$ 47,190	\$ 690	\$ 686,000	\$ 8,392	\$ 733,190	\$ 9,082
<b>Available-for-sale securities:</b>						
U.S. Government agencies	\$ 37,035	\$ 376	\$ 476,778	\$ 9,575	\$ 513,813	\$ 9,951
Obligations of states and political subdivisions	4,834	125	4,308	56	9,142	181
Other						
Total	\$ 41,869	\$ 501	\$ 481,086	\$ 9,631	\$ 522,955	\$ 10,132

Based upon review of the credit quality of these securities, the ability and intent to hold these securities for a period of time sufficient for recovery of costs and the volatility of their market price, the impairments related to these securities were determined to be temporary.

**NOTE 5 PER SHARE DATA**

The computation of basic earnings per share ( EPS ) is based on the weighted average number of shares of common stock outstanding. The computation of diluted earnings per share is based on the weighted average number of shares of common stock outstanding plus the shares resulting from the assumed exercise of all outstanding share-based awards using the treasury stock method.

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The following tables provide a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods shown:

	Three months ended September 30,					
	2007			2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share amounts)					
<b>Basic EPS</b>						
Income available to common shareholders	\$ 36,258	82,165	\$ 0.44	\$ 23,877	79,104	\$ 0.30
Effect of dilutive share-based awards		302			473	

**Diluted EPS**

Income available to common shareholders plus assumed exercise of all outstanding share-based awards	\$ 36,258	82,467	\$ 0.44	\$ 23,877	79,577	\$ 0.30
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	Nine months ended September 30,					
	2007			2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share amounts)					
<b>Basic EPS</b>						
Income available to common shareholders	\$ 105,715	81,264	\$ 1.30	\$ 97,121	79,154	\$ 1.23
Effect of dilutive stock options		368			398	

**Diluted EPS**

Income available to common shareholders plus assumed exercise	\$ 105,715	81,632	\$ 1.30	\$ 97,121	79,552	\$ 1.22
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**NOTE 6 COMPREHENSIVE INCOME**

The following tables present the components of other comprehensive income and the related tax effects allocated to each component for the periods indicated:





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	Three months ended September 30,					
	Before tax amount	2007 Tax (expense) benefit	Net of tax amount	Before tax amount	2006 Tax (expense) benefit	Net of tax amount
	(In thousands)					
Unrealized gains on available-for- sale securities: Unrealized (losses) gains arising during holding period	\$ 12,899	\$ (4,934)	\$ 7,965	\$ 11,137	\$ (4,261)	\$ 6,876
Less: Reclassification adjustment for net (gains) losses realized in net income	(7)	3	(4)	(2)	1	(1)
Recognized employee benefit plan net periodic benefit cost	494	(189)	305			
Other comprehensive (loss) income	\$ 13,386	\$ (5,120)	\$ 8,266	\$ 11,135	\$ (4,260)	\$ 6,875
Net income			36,257			23,877
Comprehensive income			\$ 44,523			\$ 30,752

	Nine months ended September 30,					
	Before tax amount	2007 Tax (expense) benefit	Net of tax amount	Before tax amount	2006 Tax (expense) benefit	Net of tax amount
	(In thousands)					
Unrealized gains on available-for- sale securities: Unrealized (losses) gains arising during holding period	\$ 9,447	\$ (3,612)	\$ 5,835	\$ 3,822	\$ (1,460)	\$ 2,362
Less: Reclassification adjustment for net (gains) losses realized in net income	(17)	7	(10)	(13)	5	(8)
Recognized employee benefit plan net periodic benefit cost	1,479	(566)	913			
	\$ 10,909	\$ (4,171)	\$ 6,738	\$ 3,809	\$ (1,455)	\$ 2,354

Other comprehensive  
(loss) income

Net income	105,715	97,121
Comprehensive income	\$ 112,453	\$ 99,475

**NOTE 7 JUNIOR SUBORDINATED DEBT SECURITIES**

In 2002, the Company issued \$128,866,000 in 8.15% Junior Subordinated Debt Securities to BancorpSouth Capital Trust I (the Trust), a business trust. The Trust used the proceeds from the issuance of five million shares of 8.15% trust preferred securities, \$25 face value per share, to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on January 28, 2032 and are callable at the option of the Company.

Pursuant to the merger with Business Holding Corporation on December 31, 2004, the Company assumed the liability for \$6,186,000 in Junior Subordinated Debt Securities issued to Business Holding Company Trust I, a statutory trust. Business Holding Company Trust I used the proceeds from the issuance of 6,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on April 7, 2034, and are callable at the option of the Company, in whole or in part, on any January 7, April 7, July 7, or October 7 on or after April 7, 2009. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.80% from January 30, 2004 to April 7, 2009 and thereafter at LIBOR plus 2.85%. Pursuant to the merger with Premier Bancorp, Inc. on December 31, 2004, the Company assumed the liability for \$3,093,000 in Junior Subordinated Debt Securities issued to Premier Bancorp Capital Trust I, a statutory trust.

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Premier Bancorp Capital Trust I used the proceeds from the issuance of 3,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on November 7, 2032, and are callable at the option of the Company, in whole or in part, on any February 7, May 7, August 7 or November 7 on or after November 7, 2007. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month LIBOR plus 3.45%. These securities were redeemed on November 7, 2007 at a redemption price of 100%.

Pursuant to the merger with American State Bank Corporation on December 1, 2005, the Company assumed the liability for \$6,702,000 in Junior Subordinated Debt Securities issued to American State Capital Trust I, a statutory trust. American State Capital Trust I used the proceeds from the issuance of 6,500 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on April 7, 2034, and are callable at the option of the Company, in whole or in part, on any July 7, October 7, January 7 or April 7 on or after April 7, 2009. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month LIBOR plus 2.80%.

Pursuant to the merger with City Bancorp on March 1, 2007, the Company assumed the liability for \$8,248,000 in Junior Subordinated Debt Securities issued to Signature Bancshares Preferred Trust I, a statutory trust. Signature Bancshares Preferred Trust I used the proceeds from the issuance of 8,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on October 8, 2033, and are callable at the option of the Company, in whole or in part, on any January 8, April 8, July 8 or October 8 on or after October 8, 2008. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month LIBOR plus 3.00%.

Pursuant to the merger with City Bancorp on March 1, 2007, the Company also assumed the liability for \$10,310,000 in Junior Subordinated Debt Securities issued to City Bancorp Preferred Trust I, a statutory trust. City Bancorp Preferred Trust I used the proceeds from the issuance of 10,000 shares of trust preferred securities to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on March 15, 2035, and are callable at the option of the Company, in whole or in part, on any March 15, June 15, September 15, or December 15 on or after March 15, 2010. The Junior Subordinated Debt Securities and the trust preferred securities pay a per annum rate of interest, reset quarterly, equal to the three-month LIBOR plus 2.2%.

**NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill by operating segment for the nine months ended September 30, 2007 were as follows:

	Community Banking	General Corporate and Other (In thousands)	Total
Balance as of December 31, 2006	\$ 105,083	\$ 38,635	\$ 143,718
Goodwill acquired during the period	109,981	888	110,869
Balance as of September 30, 2007	\$ 215,064	\$ 39,523	\$ 254,587

The following tables present information regarding the components of the Company's identifiable intangible assets for the dates and periods indicated:

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	As of September 30, 2007		As of December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Amortized intangible assets:				
Core deposit intangibles	\$ 27,801	\$ 13,730	\$ 20,699	\$ 11,706
Customer relationship intangibles	24,639	12,000	23,164	10,412
Non-solicitation intangibles	665	203	65	57
Total	\$ 53,105	\$ 25,933	\$ 43,928	\$ 22,175
Unamortized intangible assets:				
Trade names	\$ 688	\$	\$ 688	\$

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(In thousands)			
Aggregate amortization expense for:				
Core deposit intangibles	\$ 699	\$ 557	\$ 2,024	\$ 1,696
Customer relationship intangibles	511	571	1,588	1,815
Non-solicitation intangibles	142	4	146	20
Total	\$ 1,352	\$ 1,132	\$ 3,758	\$ 3,531

The following table presents information regarding estimated amortization expense on the Company's amortizable identifiable intangible assets for the year ended December 31, 2007 and the succeeding four years:

	Core Deposit Intangibles	Customer Relationship Intangibles	Non- Solicitation Intangibles	Total
	(In thousands)			
Estimated Amortization Expense:				
For year ended December 31, 2007	\$2,742	\$2,162	\$208	\$5,112
For year ended December 31, 2008	2,503	1,999	240	4,742
For year ended December 31, 2009	2,235	1,753	160	4,148
For year ended December 31, 2010	1,834	1,540		3,374
For year ended December 31, 2011	1,542	1,354		2,896

**NOTE 9 PENSION BENEFITS**

The following table presents the components of net periodic benefit costs for the periods indicated:

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	Pension Benefits			
	Three months ended		Nine months ended	
	September 30, 2007	2006	September 30, 2007	2006
	(In thousands)			
Service cost	\$ 1,959	\$ 1,743	\$ 5,876	\$ 5,229
Interest cost	1,532	1,328	4,598	3,984
Expected return on assets	(2,281)	(1,500)	(6,841)	(4,500)
Amortization of unrecognized transition amount	5	5	13	15
Recognized prior service cost	64	60	192	180
Recognized net loss	425	412	1,274	1,236
Net periodic benefit costs	\$ 1,704	\$ 2,048	\$ 5,112	\$ 6,144

**NOTE 10 RECENT PRONOUNCEMENTS**

In February 2006, Statement of Financial Accounting Standards ( SFAS ) No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of Financial Accounting Standards Board ( FASB ) Statements No. 133 and 140, was issued. SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 has had no material impact on the financial position or results of operations of the Company.

In September 2006, SFAS No. 157, Fair Value Measurements, was issued. SFAS No. 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of SFAS No. 157 will have on the financial position of the Company.

In September, 2006, the Emerging Issues Task Force reached a final consensus on Issue No. 06-4 ( EITF 06-4 ), Accounting for the Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 requires employers to recognize a liability for future benefits provided through endorsement split-dollar life insurance arrangements that extend into postretirement periods in accordance with SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions or APB Opinion No. 12, Omnibus Opinion 1967. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. Entities should recognize the effects of applying this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. The Company is currently evaluating the impact that the adoption of EITF 06-4 will have on the financial position of the Company.

In February, 2007, SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, was issued. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that the adoption of SFAS No. 159 will have on the financial position of the Company.



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**NOTE 11 ADOPTION OF FIN 48**

The Company files income tax returns in the U.S. federal jurisdiction and various states jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2003. However, taxing authorities have the ability to review prior tax years to the extent of tax attributes carrying forward to the open tax years.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, ( FIN 48 ) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an approximate \$355,000 increase in the liability for unrecognized tax benefits. The total balance of unrecognized tax benefits at January 1, 2007 was approximately \$540,000. The Company does not expect that unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company recognizes accrued interest related to unrecognized tax benefits and penalties in other noninterest expense. The Company had recognized approximately \$185,000 for the payment of interest accrued and penalties at January 1, 2007. The adoption of FIN 48 had no impact on the Company's retained earnings.

**NOTE 12 BUSINESS COMBINATIONS**

On March 1, 2007, City Bancorp, a bank holding company with approximately \$850 million in assets headquartered in Springfield, Missouri, merged with and into the Company. As a result of the merger, City Bancorp's subsidiary, The Signature Bank, became a subsidiary of the Company. Consideration paid to complete this transaction consisted of 3,279,484 shares of the Company's common stock in addition to cash paid to City Bancorp's shareholders in the aggregate amount of approximately \$82.5 million. This transaction was accounted for as a purchase. This acquisition was not material to the financial position or results of operations of the Company. Effective July 1, 2007, The Signature Bank merged with and into BancorpSouth Bank.

**NOTE 13 SEGMENT REPORTING**

The Company's principal activity is community banking, which includes providing a full range of deposit products, commercial loans and consumer loans. The general corporate and other operating segment includes leasing, mortgage lending, trust services, credit card activities, insurance services, investment services and other activities not allocated to community banking.

Results of operations and selected financial information by operating segment for the three-month and nine-month periods ended September 30, 2007 and 2006 were as follows:

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	Community Banking	General Corporate and Other (In thousands)	Total
Three months ended September 30, 2007:			
<b>Results of Operations</b>			
Net interest revenue	\$ 97,722	\$ 10,194	\$ 107,916
Provision for credit losses	5,680	47	5,727
Net interest revenue after provision for credit losses	92,042	10,147	102,189
Noninterest revenue	33,388	24,506	57,894
Noninterest expense	71,333	35,018	106,351
Income before income taxes	54,097	(365)	53,732
Income taxes	17,594	(119)	17,475
Net income	\$ 36,503	\$ (246)	\$ 36,257
<b>Selected Financial Information</b>			
Total assets (at end of period)	\$ 10,982,478	\$ 2,151,839	\$ 13,134,317
Depreciation and amortization	7,083	1,387	8,470
Three months ended September 30, 2006:			
<b>Results of Operations</b>			
Net interest revenue	\$ 86,620	\$ 9,778	\$ 96,398
Provision for credit losses	2,460	66	2,526
Net interest revenue after provision for credit losses	84,160	9,712	93,872
Noninterest revenue	25,905	23,329	49,234
Noninterest expense	67,718	30,943	98,661
Income before income taxes	42,347	2,098	44,445
Income taxes	12,847	7,721	20,568
Net income	\$ 29,500	\$ (5,623)	\$ 23,877
<b>Selected Financial Information</b>			
Total assets (at end of period)	\$ 9,883,567	\$ 1,987,197	\$ 11,870,764
Depreciation and amortization	6,519	1,246	7,765



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	Community Banking	General Corporate and Other (In thousands)	Total
Nine months ended September 30, 2007:			
<b>Results of Operations</b>			
Net interest revenue	\$ 283,556	\$ 29,686	\$ 313,242
Provision for credit losses	14,873	52	14,925
Net interest revenue after provision for credit losses	268,683	29,634	298,317
Noninterest revenue	93,390	83,095	176,485
Noninterest expense	210,206	107,683	317,889
Income before income taxes	151,867	5,046	156,913
Income taxes	49,552	1,646	51,198
Net income	\$ 102,315	\$ 3,400	\$ 105,715
<b>Selected Financial Information</b>			
Total assets (at end of period)	\$ 10,982,478	\$ 2,151,839	\$ 13,134,317
Depreciation and amortization	20,435	4,199	24,634
Nine months ended September 30, 2006:			
<b>Results of Operations</b>			
Net interest revenue	\$ 261,835	\$ 27,713	\$ 289,548
Provision for credit losses	2,167	85	2,252
Net interest revenue after provision for credit losses	259,668	27,628	287,296
Noninterest revenue	79,049	76,555	155,604
Noninterest expense	195,302	97,711	293,013
Income before income taxes	143,415	6,472	149,887
Income taxes	43,738	9,028	52,766
Net income	\$ 99,677	\$ (2,556)	\$ 97,121
<b>Selected Financial Information</b>			
Total assets (at end of period)	\$ 9,883,567	\$ 1,987,197	\$ 11,870,764
Depreciation and amortization	18,601	3,858	22,459

**NOTE 14 MORTGAGE SERVICING RIGHTS**

The Company recognizes mortgage servicing rights (MSRs) based on the fair value of the servicing right on the date the corresponding mortgage loan is sold. In determining the fair value of the MSRs, the Company utilizes the expertise of an independent third party. An estimate of the fair value of the Company's MSRs is determined by the independent third party utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. This estimate and the assumptions used are reviewed by management. Because the valuation is determined by using discounted cash flow models, the primary risk inherent in valuing the MSRs is the impact of fluctuating interest rates on the estimated life of the servicing revenue stream. The use of different estimates or assumptions could also produce different fair values. The Company does not hedge the

change in fair value of MSR's and, therefore, the Company is susceptible to significant fluctuations in the fair value of its MSR's in changing interest rate environments.

The Company has one class of mortgage servicing asset comprised of closed end loans for one-to-four family residences, secured by first liens. The following table presents the activity in this class for the periods indicated:

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	2007	2006
	(In thousands)	
Fair value as of January 1	\$ 35,286	\$ 36,456
Additions:		
Origination of servicing assets	4,025	4,662
Changes in fair value:		
Due to change in valuation inputs or assumptions used in the valuation model	(3,774)	(3,078)
Other changes in fair value	(19)	45
Fair value as of September 30	\$ 35,518	\$ 38,085

All of the changes to the fair value of the MSRs are recorded as part of mortgage lending noninterest revenue on the income statement. As part of mortgage lending noninterest revenue, the Company recorded contractual servicing fees of \$2.01 million and \$2.02 million and late and other ancillary fees of \$239,000 and \$267,000 for the third quarters ended September 30, 2007 and 2006, respectively. The Company recorded contractual servicing fees of \$6.06 million and \$6.06 million and late and other ancillary fees of \$731,000 and \$748,000 for the nine months ended September 30, 2007 and 2006, respectively.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **OVERVIEW**

BancorpSouth, Inc. (the "Company") is a regional financial holding company with approximately \$13.1 billion in assets headquartered in Tupelo, Mississippi. BancorpSouth Bank (the "Bank"), the Company's wholly-owned banking subsidiary, has commercial banking operations in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida and Missouri. BancorpSouth Bank and its consumer finance, credit insurance, insurance agency and brokerage subsidiaries provide commercial banking, leasing, mortgage origination and servicing, insurance, brokerage and trust services to corporate customers, local governments, individuals and other financial institutions through an extensive network of branches and offices.

Management's discussion and analysis provides a narrative discussion of the Company's financial condition and results of operations. For a complete understanding of the following discussion, you should refer to the unaudited consolidated financial statements for the three-month and nine-month periods ended September 30, 2007 and 2006 and the notes to such financial statements found under Part I, Item 1. Financial Statements of this report. This discussion and analysis is based on reported financial information. The information that follows is provided to enhance comparability of financial information between periods and to provide a better understanding of the Company's operations.

As a financial holding company, the financial condition and operating results of the Company are influenced by national economic trends and heavily influenced by economic trends in the specific markets in which the Company's subsidiary provides financial services. Most of the revenue of the Company is derived from the operation of its banking subsidiary. The financial condition and operating results of the bank is affected by the level and volatility of interest rates on loans, investment securities, deposits and other borrowed funds, and the impact of economic cycles on loan demand and creditworthiness of existing borrowers. The financial services industry is highly competitive and heavily regulated. The Company's success depends on its ability to compete aggressively within its markets while maintaining sufficient asset quality and cost controls to generate net income.

The tables below summarize the Company's net income, net income per share, return on average assets and return on average shareholders' equity for the three months and nine months ended September 30, 2007 and 2006. Management believes these amounts and ratios are key indicators of the Company's financial performance.

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(Dollars in thousands, except per share amounts)	Three months ended September 30,		
	2007	2006	% Change
Net income	\$36,257	\$23,877	51.85%
Net income per share: Basic	\$ 0.44	\$ 0.30	46.67
Diluted	\$ 0.44	\$ 0.30	46.67
Return on average assets (annualized)	1.10%	0.80%	37.50
Return on average shareholders' equity (annualized)	12.60%	9.33%	35.05

(Dollars in thousands, except per share amounts)	Nine months ended September 30,		
	2007	2006	% Change
Net income	\$105,715	\$97,121	8.85%
Net income per share: Basic	\$ 1.30	\$ 1.23	5.69
Diluted	\$ 1.30	\$ 1.22	6.56
Return on average assets (annualized)	1.11%	1.10%	0.91
Return on average shareholders' equity (annualized)	12.77%	13.05%	(2.15)

Net income increased significantly, 51.85% for the three months ended September 30, 2007 compared to the three months ended September 30, 2006 and increased 8.85% for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The Company's primary source of revenue, net interest revenue earned by its subsidiary bank, continued to reflect positive trends for the three months and nine months ended September 30, 2007 compared to the same periods in 2006. The acquisition of The Signature Bank in the first quarter of 2007 had a significant impact on third quarter and year-to-date 2007 net interest revenue when compared to the same periods of 2006. The Company's net interest revenue was also positively impacted by increases in interest rates earned on loans and investment securities as well as the increased loan demand resulting from favorable economic activity throughout most of its banking subsidiary's markets and the Company's continued focus on funding this growth with maturing investment securities and lower-cost liabilities. The acquisition of The Signature Bank in the first quarter of 2007 also had a significant impact on third quarter and year-to-date 2007 net interest revenue when compared to the comparative periods of 2006. These factors combined to increase the Company's net interest revenue to \$107.92 million for the third quarter of 2007, an \$11.52 million, or 11.95%, increase from \$96.40 million for the third quarter of 2006, while net interest revenue increased to \$313.24 million for the first nine months of 2007, a \$23.69 million, or 8.18%, increase from \$289.55 million for the first nine months of 2006.

While the increase in net interest revenue during the third quarter and first nine months of 2007 compared to the third quarter and first nine months of 2006 positively impacted net income, the provision for credit losses increased in the third quarter and first nine months of 2007 compared to the same periods in 2006, negatively impacting net income. The provision for credit losses was \$5.73 million for the third quarter of 2007 compared to \$2.53 million for the third quarter of 2006 and was \$14.93 million for the first nine months of 2007 compared to \$2.25 million for the first nine months of 2006. The increase in the provision for credit losses for the third quarter of 2007 was primarily a result of the loan growth experienced during the third quarter of 2007. The increase in the provision for credit losses for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 was primarily a result of the reduction in credit losses related to Hurricane Katrina in 2006. During the first quarter of 2006, the Company reduced its previous allowance for credit losses related to Hurricane Katrina by \$4.77 million, as the impact of the hurricane on the Company's customers had been less than originally estimated.

During the third quarter of 2006, the Company recorded additional income tax expense of approximately \$6.75 million due to statutory limitations which prevented the recovery of excess taxes paid in prior years. The statute of limitations relating to the amendment of certain prior year tax returns lapsed during the third quarter of 2006, necessitating the recognition of the additional income tax expense. This recognition also contributed to the increase of

the Company's net income for 2007 compared to 2006.

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The Company has taken steps to diversify its revenue stream by increasing the amount of revenue received from mortgage lending operations, insurance agency activities, brokerage and securities activities and other activities that generate fee income. Management believes this diversification is important to reduce the impact of fluctuations in net interest revenue on the overall operating results of the Company. This diversification strategy resulted in an overall increase in noninterest revenue of 17.59% for the third quarter 2007, compared to the same period in 2006 and an overall increase of 13.42% for the first nine months of 2007 compared to the first nine months of 2006. One of the primary contributors to the increase in noninterest revenue was insurance commissions, which increased 9.80% for the third quarter of 2007 compared to the same period in 2006 and 16.68% for the first nine months of 2007 compared to the first nine months of 2006. The Company's mortgage lending revenue, typically a significant contributor to noninterest revenue, was only \$100 thousand for the third quarter of 2007, compared to \$41 thousand for the third quarter of 2006. These nominal amounts are primarily attributable to a \$3.20 million decrease and a \$3.67 million decrease in the value of the Company's mortgage servicing asset during the third quarters of 2007 and 2006, respectively.

Annualized net charge-offs increased to 0.13% of average loans for the third quarter of 2007 from 0.07% of average loans for the third quarter of 2006 and to 0.12% of average loans for the first nine months of 2007 compared to 0.11% of average loans for the first nine months of 2006. Noninterest expense totaled \$106.35 million for the third quarter of 2007 compared to \$98.66 million for the third quarter of 2006, an increase of \$7.69 million, or 7.79%. For the first nine months of 2007 and 2006, noninterest expense totaled \$317.89 million and \$293.01 million, respectively, representing an increase of 8.49%. The increase in noninterest expense for the third quarter and first nine months of 2007 resulted primarily from increased costs related to additional locations and facilities added since September 30, 2006, as well as costs related to the integration and operation of The Signature Bank, acquired by the Company on March 1, 2007. The major components of net income are discussed in more detail in the various sections that follow.

**CRITICAL ACCOUNTING POLICIES**

During the nine months ended September 30, 2007, there was no significant change in the Company's critical accounting policies and no significant change in the application of critical accounting policies as presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

**RESULTS OF OPERATIONS****Net Interest Revenue**

Net interest revenue is the difference between interest revenue earned on assets, such as loans, leases and securities, and interest expense paid on liabilities, such as deposits and borrowings, and continues to provide the Company with its principal source of revenue. Net interest revenue is affected by the general level of interest rates, changes in interest rates and changes in the amount and composition of interest earning assets and interest bearing liabilities. The Company's long-term objective is to manage interest earning assets and interest bearing liabilities to maximize net interest revenue, while balancing interest rate, credit, liquidity and capital risks. For purposes of the following discussion, revenue from tax-exempt loans and investment securities has been adjusted to a fully taxable equivalent basis, using an effective tax rate of 35%.

Net interest revenue was \$110.40 million for the three months ended September 30, 2007, compared to \$98.95 million for the same period in 2006, representing an increase of \$11.46 million, or 11.58%. For the first nine months of 2007 and 2006, net interest revenue was \$320.72 million and \$297.06 million, respectively, representing an increase of \$23.66, million or 7.97%. The increase in net interest revenue for the third quarter and first nine months of 2007 is primarily a result of the acquisition of The Signature Bank during the first quarter of 2007.

Interest revenue increased \$32.67 million, or 18.38%, to \$210.45 million for the three months ended September 30, 2007 from \$177.79 million for the three months ended September 30, 2006. The increase in interest revenue for the three months ended September 30, 2007 is attributable to a \$1.24 billion, or 11.53%, increase in average interest earning assets to \$11.96 billion for the third quarter of 2007 from \$10.72 billion for the third quarter of 2006 and an

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increase in the yield of those assets of 40 basis points to 6.98% for the third quarter of 2007 from 6.58% for the third quarter of 2006. For the first nine months of 2007 and 2006, interest revenue was \$605.14 million and \$510.03 million, respectively, representing an increase of 18.65%. The acquisition of The Signature Bank in the first quarter of 2007 was the primary contributor to these significant year over year increases, except for the increase in asset yields, which resulted from favorable economic activity throughout most of the Bank's markets.

Interest expense increased \$21.21 million, or 26.90%, to \$100.05 million for the three months ended September 30, 2007 from \$78.84 million for the three months ended September 30, 2006. This increase in interest expense is attributable to a larger amount of interest bearing liabilities and a higher average rate paid on those liabilities for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. Average interest bearing liabilities increased \$1.17 billion, or 13.03%, to \$10.12 billion for the third quarter of 2007 from \$8.95 billion for the third quarter of 2006. The average rate paid on those liabilities also increased 43 basis points to 3.92% for the third quarter of 2007 from 3.49% for the third quarter of 2006. Again, the acquisition of The Signature Bank during the first quarter of 2007 was the primary contributor to these significant year over year increases.

The relative performance of the Company's lending and deposit-raising functions is frequently measured by two calculations—net interest margin and net interest rate spread. Net interest margin is determined by dividing fully taxable equivalent net interest revenue by average earning assets. Net interest rate spread is the difference between the average fully taxable equivalent yield earned on interest earning assets (earning asset yield) and the average rate paid on interest bearing liabilities. Net interest margin is generally greater than the net interest rate spread because of the additional income earned on assets funded by noninterest bearing liabilities, or free funding, such as noninterest bearing demand deposits and shareholders' equity.

Net interest margin for the third quarters of 2007 and 2006 was 3.66%. Net interest margin for the nine months ended September 30, 2007 and 2006 was 3.67% and 3.71%, respectively, representing a decrease of four basis points. Net interest rate spread for the third quarter of 2007 was 3.06%, a decrease of 3 basis points from 3.09% for the same period of 2006. Net interest rate spread for the first nine months of 2007 and 2006 was 3.06% and 3.18%, respectively, representing a decrease of 12 basis points. The decrease in the net interest rate spread for the third quarter of 2007 as compared to the same period of 2006 was primarily a result of the larger increase in the average rate paid on interest bearing liabilities, from 3.49% for the third quarter of 2006 to 3.92% for the third quarter of 2007, than the increase in the average rate earned on interest earning assets from 6.58% for the third quarter of 2006 to 6.98% for the third quarter of 2007. The decrease in the net interest rate spread for the first nine months of 2007 as compared to the same period of 2006 was also primarily a result of the larger increase in the average rate paid on interest bearing liabilities, from 3.20% for the first nine months of 2006 to 3.87% for the first nine months of 2007, than the increase in the average rate earned on interest earning assets from 6.38% for the first nine months of 2006 to 6.93% for the first nine months of 2007. While the average rate paid on interest bearing liabilities increased at a larger rate than the average rate earned on interest earning assets, the earning asset yield increase for the third quarter of 2007 was a result of favorable economic activity throughout most of the Company's subsidiary bank's markets, resulting in stronger loan demand. The Company has also invested funds from maturing securities in higher rate loans or new higher rate short- and intermediate-term investments.

**Interest Rate Sensitivity**

The interest rate sensitivity gap is the difference between the maturity or repricing opportunities of interest sensitive assets and interest sensitive liabilities for a given period of time. A prime objective of the Company's asset/liability management is to maximize net interest margin while maintaining a reasonable mix of interest sensitive assets and liabilities. The following table presents the Company's interest rate sensitivity at September 30, 2007:

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	Interest Rate Sensitivity - Maturing or Repricing Opportunities			
	0 to 90 Days	91 Days to One Year	Over One Year to Five Years	Over Five Years
	(In thousands)			
<b>Interest earning assets:</b>				
Interest bearing deposits with banks	\$ 18,069	\$	\$	\$
Federal funds sold and securities purchased under agreement to resell	57,000			
Held-to-maturity securities	60,150	228,315	1,054,327	363,558
Available-for-sale and trading securities	63,222	171,161	413,363	370,555
Loans and leases, net of unearned income	4,991,334	1,603,031	2,322,196	138,162
Loans held for sale	103,722			
<b>Total interest earning assets</b>	<b>5,293,497</b>	<b>2,002,507</b>	<b>3,789,886</b>	<b>872,275</b>
<b>Interest bearing liabilities:</b>				
Interest bearing demand deposits and savings	3,774,192	146,959		
Other time deposits	1,131,964	2,579,896	869,178	1,471
Federal funds purchased and securities sold under agreement to repurchase and other short-term FHLB borrowings	1,297,177			
Long-term FHLB borrowings and junior subordinated debt securities	517	52,382	10,206	241,905
Other	45	74	74	54
<b>Total interest bearing liabilities</b>	<b>6,203,895</b>	<b>2,779,311</b>	<b>879,458</b>	<b>243,430</b>
<b>Interest rate sensitivity gap</b>	<b>\$ (910,398)</b>	<b>\$ (776,804)</b>	<b>\$ 2,910,428</b>	<b>\$ 628,845</b>
<b>Cumulative interest sensitivity gap</b>	<b>\$ (910,398)</b>	<b>\$ (1,687,202)</b>	<b>\$ 1,223,226</b>	<b>\$ 1,852,071</b>

**Provision for Credit Losses and Allowance for Credit Losses**

The provision for credit losses is the periodic cost of providing an allowance or reserve for estimated probable losses on loans and leases. The Bank employs a systematic methodology for determining the allowance for credit losses that considers both qualitative and quantitative factors and requires that management make material estimates and assumptions that are particularly susceptible to significant change. Some of the quantitative factors considered by the Bank include loan and lease growth, changes in nonperforming and past due loans and leases, historical loan and lease loss experience, delinquencies, management's assessment of loan and lease portfolio quality, the value of collateral and concentrations of loans and leases to specific borrowers or industries. Some of the qualitative factors that the Bank considers include existing general economic conditions and the inherent risks of individual loans and leases. The allowance for credit losses is based principally upon the Bank's loan and lease classification system, delinquencies and historic loss rates. The Bank has a disciplined approach for assigning credit ratings and classifications to individual credits. Each credit is assigned a grade by the appropriate loan officer, which serves as a basis for the credit analysis of the entire portfolio. The assigned grade reflects the borrower's creditworthiness, collateral values, cash flows and other factors. An independent loan review department is responsible for reviewing the credit rating and classification of individual credits and assessing trends in the portfolio, adherence to internal credit policies and procedures and other factors that may affect the overall adequacy of the allowance. The loss factors assigned to each



classification are based upon the attributes of the loans and leases typically assigned to each grade (such as loan-to-collateral values and borrower creditworthiness). Management periodically reviews the loss factors assigned in light of the general economic environment and overall condition of the loan and lease portfolio and modifies the loss factors assigned to each classification as management deems appropriate. The overall

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allowance generally includes a component representing the results of other analyses intended to ensure that the allowance is adequate to cover other probable losses inherent in the portfolio. This component considers analyses of changes in credit risk resulting from the differing underwriting criteria in acquired loan and lease portfolios, industry concentrations, changes in the mix of loans and leases originated, overall credit criteria and other economic indicators. The Company's provision for credit losses, allowance for credit losses and net charge-offs are shown in the following table:

	Three months ended		
	September 30,		
	2007	2006	% Change
	(Dollars in thousands)		
Provision for credit losses	\$ 5,727	\$ 2,526	126.72%
Net charge-offs	\$ 2,936	\$ 1,399	109.86
Net charge-offs as a percentage of average loans and leases (annualized)	0.13%	0.07%	85.71
	Nine months ended		
	September 30,		
	2007	2006	% Change
	(Dollars in thousands)		
Provision for credit losses	\$ 14,925	\$ 2,252	562.74%
Net charge-offs	\$ 7,778	\$ 6,361	22.28
Net charge-offs as a percentage of average loans and leases (annualized)	0.12%	0.11%	9.09
Allowance for credit losses as a percentage of loans and leases outstanding at period end	1.24%	1.25%	(0.80)

The increase in the provision for credit losses for the first nine months of 2007 compared to the same period of 2006 primarily reflects the \$4.77 million pre-tax reduction in the allowance for credit losses during the first quarter of 2006 related to Hurricane Katrina because losses in the area impacted by the hurricane were less than originally anticipated. The increase in the provision for credit losses for the third quarter of 2007 is a result of the increased credit risk from the loan growth experienced by the Company, an increase in net charge-offs, as well as some downward migration of loans within the Banks' loan and lease credit ratings and classifications. And because our mortgage lending decisions are based on conservative lending policies, we continue to have only nominal exposure, approximately \$429,000, to the credit issues affecting the sub prime residential mortgage market.

The breakdown of the allowance by loan and lease category is based, in part, on evaluations of specific loan and lease histories and on economic conditions within specific industries or geographical areas. Accordingly, because all of these conditions are subject to change, the allocation is not necessarily indicative of the breakdown of any future allowance or losses. The following table presents (a) the breakdown of the allowance for credit losses by loan and lease category and (b) the percentage of each category in the loan and lease portfolio to total loans and leases at the dates indicated:

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	September 30, 2007		2006		December 31, 2006	
	Allowance for Credit Losses	% of Total Loans and Leases	Allowance for Credit Losses	% of Total Loans and Leases	Allowance for Credit Losses	% of Total Loans and Leases
	(Dollars in thousands)					
Commercial and agricultural	\$ 15,293	13.64%	\$ 11,442	12.61%	\$ 11,361	12.24%
Consumer and installment	8,315	4.65%	6,923	4.93%	6,665	4.90%
Real estate mortgage	84,861	75.71%	75,771	77.91%	77,279	78.38%
Lease financing	2,659	3.20%	2,921	3.98%	2,896	3.94%
Other	1,006	2.80%	334	0.57%	633	0.54%
Total	\$ 112,134	100.00%	\$ 97,391	100.00%	\$ 98,834	100.00%

The following table provides an analysis of the allowance for credit losses for the periods indicated:

	Nine months ended		Year ended
	September 30, 2007	September 30, 2006	December 31, 2006
	(Dollars in thousands)		
Balance, beginning of period	\$ 98,834	\$ 101,500	\$ 101,500
Loans and leases charged off:			
Commercial and agricultural	(1,936)	(714)	(1,479)
Consumer and installment	(4,711)	(3,656)	(5,305)
Real estate mortgage	(4,410)	(5,737)	(8,790)
Lease financing		(181)	(529)
Total loans charged off	(11,057)	(10,288)	(16,103)
Recoveries:			
Commercial and agricultural	739	1,581	1,739
Consumer and installment	1,514	1,828	2,401
Real estate mortgage	992	460	658
Lease financing	34	58	62
Total recoveries	3,279	3,927	4,860
Net charge-offs	(7,778)	(6,361)	(11,243)
Provision charged to operating expense	14,925	2,252	8,577

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Acquisitions	6,153		
Balance, end of period	\$ 112,134	\$ 97,391	\$ 98,834
Average loans for period	\$ 8,676,921	\$ 7,506,656	\$ 7,579,935
Ratios:			
Net charge-offs to average loans (annualized)	0.12%	0.11%	0.15%

**Noninterest Revenue**

The components of noninterest revenue for the three months and nine months ended September 30, 2007 and 2006 and the corresponding percentage changes are shown in the following table:

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	Three months ended		
	September 30,		
	2007	2006	% Change
	(Dollars in thousands)		
Mortgage lending	\$ 100	\$ 41	143.90%
Credit card, debit card and merchant fees	7,667	6,447	18.92
Service charges	17,281	16,247	6.36
Trust income	2,487	2,344	6.10
Securities gains, net	7	9	(22.22)
Insurance commissions	17,542	15,977	9.80
Other	12,810	8,169	56.81
<b>Total noninterest revenue</b>	<b>\$ 57,894</b>	<b>\$ 49,234</b>	<b>17.59%</b>

	Nine months ended		
	September 30,		
	2007	2006	% Change
	(Dollars in thousands)		
Mortgage lending	\$ 7,363	\$ 6,937	6.14%
Credit card, debit card and merchant fees	21,932	18,988	15.50
Service charges	50,354	46,861	7.45
Trust income	7,158	6,685	7.08
Securities gains, net	24	36	(33.33)
Insurance commissions	55,001	47,139	16.68
Other	34,653	28,958	19.67
<b>Total noninterest revenue</b>	<b>\$ 176,485</b>	<b>\$ 155,604</b>	<b>13.42%</b>

The Company's revenue from mortgage lending typically fluctuates as mortgage interest rates change and is primarily attributable to two activities—origination and sale of new mortgage loans and servicing mortgage loans. The Company's normal practice is to generate mortgage loans to sell them in the secondary market and to either retain or release the associated MSR with the loan sold.

Origination revenue, a component of mortgage lending, is comprised of gains or losses from the sale of the mortgage loans originated. Origination volume of \$220.76 million and \$166.47 million produced origination revenue of \$1.05 million and \$1.42 million for the quarters ended September 30, 2007 and 2006, respectively. Origination volume of \$591.28 million and \$455.27 million produced origination revenue of \$4.34 million and \$3.21 million for the first nine months ended September 30, 2007 and 2006, respectively. While origination volumes increased for the three and nine months ended September 30, 2007, as compared to the same periods of 2006, origination revenue decreased in the third quarter 2007 compared to the third quarter 2006 as the result of competitive pricing pressure. Revenue from the servicing process, the other component of mortgage lending revenue, includes fees from the actual servicing of loans and the recognition of changes in the valuation of the Company's MSRs. Revenue from the servicing of loans was \$2.25 million and \$2.29 million for the quarters ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, revenue from the servicing of loans was \$6.79 million and \$6.81 million, respectively. Changes in the fair value of the Company's MSRs are generally a result of changes in mortgage rates from the previous reporting date. The fair value is also impacted by principal payments, prepayments and payoffs on loans in the servicing portfolio. An increase in mortgage rates typically results in an increase in the fair value of the MSRs while a decrease in mortgage rates typically results in a decrease in the fair value of MSRs. The

Company does not hedge the change in fair value of its MSRs and is susceptible to

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significant fluctuations in their value in changing interest rate environments. Reflecting this sensitivity to interest rates, the fair value of MSRs decreased \$3.20 million for the quarter ended September 30, 2007 and declined \$3.67 million for the quarter ended September 30, 2006. The fair value of MSRs declined \$3.77 million for the nine months ended September 30, 2007 and declined \$3.08 million for the nine months ended September 30, 2006. Credit card, debit card and merchant fees increased for the third quarter and nine months ending September 30, 2007 when compared to the same periods in 2006 as a result of an increase in the numerical and monetary volume of items processed. Service charges on deposit accounts increased for the third quarter and nine months ending September 30, 2007 as compared to the same periods in 2006 because of higher volumes of items processed and growth in the number of deposit accounts. The acquisition of The Signature Bank in the first quarter of 2007 also contributed to the increase in card fees and service charges on deposit accounts. Trust income increased for the comparable three-month and nine-month periods as a result of increases in the value of assets custodied at or managed by the Bank. The increase in insurance commissions is primarily a result of the increase in policies written since September 30, 2006, including substantial new business generated in the Mississippi Gulf Coast region, coupled with higher policy premiums.

Contributing to the growth in other noninterest revenue for the first nine months of 2007 compared to the first nine months of 2006 were increases in corporate analysis charges, check printing fees, brokerage revenue and gains related to the disposition of fixed assets. Also reflected in other noninterest revenue are gains related to the sale or redemption of a portion of the Company's MasterCard common stock holdings, \$2.39 million in the third quarter of 2007 and \$732,000 in the second quarter of 2006.

**Noninterest Expense**

The components of noninterest expense for the three months and nine months ended September 30, 2007 and 2006 and the corresponding percentage changes are shown in the following table:

	Three months ended September 30,		% Change
	2007 (Dollars in thousands)	2006	
Salaries and employee benefits	\$ 63,269	\$ 58,453	8.24%
Occupancy, net of rental income	8,959	8,598	4.20
Equipment	6,057	5,896	2.73
Other	28,066	25,714	9.15
Total noninterest expense	\$ 106,351	\$ 98,661	7.79%

	Nine months ended September 30,		% Change
	2007 (Dollars in thousands)	2006	
Salaries and employee benefits	\$ 190,748	\$ 174,402	9.37%
Occupancy, net of rental income	26,131	23,799	9.80
Equipment	18,136	17,481	3.75
Other	82,874	77,331	7.17
Total noninterest expense	\$ 317,889	\$ 293,013	8.49%

Salaries and employee benefits expense for the three months and nine months ended September 30, 2007 increased compared to the same periods in 2006, primarily as a result of the hiring of employees to staff locations and facilities added since September 30, 2006, as well as the addition of the salaries and employee benefits related to the acquisition of The Signature Bank during the first quarter of 2007. Occupancy expense also increased on a comparable three-month and nine-month period basis primarily because of additional locations and facilities opened since September 30, 2006, including the addition of The Signature Bank facilities during the first quarter of 2007.



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Equipment expense increased for the comparable three-month and nine-month periods because of increased depreciation related to equipment purchased since September 2006. The renovation and reconstruction of facilities, along with new equipment purchased as a result of the destruction caused by Hurricane Katrina, contributed to the increased facility and equipment depreciation expense in 2007. The increase in other noninterest expense primarily reflects normal increases and general inflation in the cost of services and supplies purchased by the Company during the third quarter and first nine months of 2007 compared to the third quarter and first nine months of 2006. Virtually all categories of noninterest expense reflect some comparable-period increase as a result of the acquisition of The Signature Bank during the first quarter of 2007.

**Income Tax**

Income tax expense was \$17.48 million for the third quarter of 2007, a 15.04% decrease from \$20.57 million for the third quarter of 2006. For the nine-month period ending September 30, 2007, income tax expense was \$51.20 million compared to \$52.77 million for the same period in 2006, representing a decrease of 2.97%. The effective tax rates for the third quarters of 2007 and 2006 were 32.52% and 46.28%, respectively, and the effective tax rates for the nine-month periods ended September 30, 2007 and 2006 were 32.63% and 35.20%, respectively. The decrease in effective tax rates for the third quarter and first nine months of 2007 compared to the same periods in 2006 was due to the recognition of \$6.75 million in additional income tax expense in the third quarter of 2006, as statutory limitations prevented the recovery of excess taxes paid in prior years. Also, in second quarter 2006, issues related to a tax audit by The Mississippi State Tax Commission for the years 1998 through 2001 were resolved, allowing the reversal of a contingency of \$1.95 million. If the additional tax expense had not been recognized in the third quarter 2006 and the reduction of state tax contingency had not been reversed in the second quarter of 2006, the effective tax rates for the nine months ended September 30, 2007 and 2006 would have remained relatively stable at 32.63% and 32.00%, respectively.

**FINANCIAL CONDITION****Earning Assets**

The percentage of earning assets to total assets measures the effectiveness of management's efforts to invest available funds into the most efficient and profitable uses. Earning assets at September 30, 2007 were \$11.96 billion, or 91.05% of total assets, compared with \$10.88 billion, or 90.37% of total assets, at December 31, 2006.

The Company uses the Bank's securities portfolios to make various term investments, to provide a source of liquidity and to serve as collateral to secure certain types of deposits. Held-to-maturity securities at September 30, 2007 were \$1.71 billion, compared with \$1.72 billion at December 31, 2006, a 1.00% decrease. Available-for-sale securities were \$1.02 billion at September 30, 2007, compared to \$1.04 billion at December 31, 2006, a 2.27% decrease.

The Bank's loan and lease portfolios make up the single largest component of the Company's earning assets. The Bank's lending activities include both commercial and consumer loans and leases. Loan and lease originations are derived from a number of sources, including direct solicitation by the Bank's loan officers, real estate broker referrals, mortgage loan companies, current depositors and loan customers, builders, attorneys, walk-in customers and, in some instances, other lenders. The Bank has established disciplined and systematic procedures for approving and monitoring loans and leases that vary depending on the size and nature of the loan or lease. Loans and leases, net of unearned income, totaled \$9.05 billion at September 30, 2007, which represented a 15.03% increase from \$7.87 billion at December 31, 2006. The acquisition of The Signature Bank in the first quarter of 2007 contributed \$786.26 million of the increase in loans and leases, net of unearned income at September 30, 2007.

At September 30, 2007, the Company did not have any concentrations of loans in excess of 10% of total loans outstanding. Loan concentrations exist if the Bank makes loans to a number of borrowers engaged in similar activities, where the borrowers could be similarly impacted by economic or other conditions. However, the Company conducts a significant portion of its business in a geographically concentrated area, and the ability of the

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Company's borrowers to repay loans is somewhat dependent upon the economic conditions prevailing in the Company's market areas.

In the normal course of business, management becomes aware of possible credit problems in which borrowers exhibit potential for the inability to comply with the contractual terms of their loans, but which do not currently meet the criteria for disclosure as non-performing loans. Historically, some of these loans are ultimately restructured or placed in non-accrual status. At September 30, 2007, no loans of material significance were known to be potential non-performing loans.

Collateral for some of the Company's loans is subject to fair value evaluations that fluctuate with market conditions and other external factors. In addition, while the Company has certain underwriting obligations related to such evaluations from a review standpoint, evaluations of some real property and other collateral are dependent upon third-party independent appraisers employed either by the Company's customers or as independent contractors of the Company.

The Company's policy provides that loans, other than installment loans, are generally placed in non-accrual status if, in management's opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Non-performing loans were 0.35% of loans and leases, net of unearned income, at September 30, 2007 and 0.30% of loans and leases, net of unearned income, at December 31, 2006.

**Deposits and Other Interest Bearing Liabilities**

Deposits originating within the communities served by the Bank continue to be the Company's primary source of funding its earning assets. The Company has been able to compete effectively for deposits in its primary market areas, while continuing to manage the exposure to rising interest rates. Deposits totaled \$10.19 billion at September 30, 2007 as compared to \$9.71 billion at December 31, 2006, representing a 4.95% increase. Noninterest bearing demand deposits decreased by \$130.07 million, or 7.16%, to \$1.69 billion at September 30, 2007 from \$1.82 billion at December 31, 2006, and interest bearing demand, savings and time deposits increased \$610.31 million, or 7.73%, to \$8.50 billion at September 30, 2007 from \$7.89 billion at December 31, 2006. The acquisition of The Signature Bank in the first quarter of 2007 contributed \$522.39 million of the increase in interest bearing demand, savings and time deposits at September 30, 2007.

**Liquidity and Capital Resources**

One of the Company's goals is to provide adequate funds to meet increases in loan demand or any potential increase in the normal level of deposit withdrawals. The Company accomplishes this goal primarily by generating cash from the bank's operating activities and maintaining sufficient short-term liquid assets. These sources, coupled with a stable deposit base and a strong reputation in the capital markets, allow the Company to fund earning assets and maintain the availability of funds. Management believes that the Bank's traditional sources of maturing loans and investment securities, sales of loans held for sale, cash from operating activities and a strong base of core deposits are adequate to meet the Company's liquidity needs for normal operations over both the short-term and the long-term.

To provide additional liquidity, the Company utilizes short-term financing through the purchase of federal funds and securities lending arrangements. Further, the Company maintains a borrowing relationship with the Federal Home Loan Bank, which provides liquidity to fund term loans with borrowings of matched or longer maturities.

If the Company's traditional sources of liquidity were constrained, the Company would be forced to pursue avenues of funding not typically used by the Company and the Company's net interest margin could be impacted negatively. The Company utilizes, among other tools, maturity gap tables, interest rate shock scenarios and an active asset and liability management committee to analyze, manage and plan asset growth and to assist in managing the Company's net interest margin and overall level of liquidity. The Company's approach to providing adequate liquidity has been successful in the past and management does not anticipate any near- or long-term changes to its liquidity strategies.

**Table of Contents****Off-Balance Sheet Arrangements**

In the ordinary course of business, the Company enters into various off-balance sheet commitments and other arrangements to extend credit that are not reflected in the consolidated balance sheets of the Company. The business purpose of these off-balance sheet commitments is the routine extension of credit. While most of the commitments to extend credit are made at variable rates, included in these commitments are forward commitments to fund individual fixed-rate mortgage loans. Fixed-rate lending commitments expose the Company to risks associated with increases in interest rates. As a method to manage these risks, the Company enters into forward commitments to sell individual fixed-rate mortgage loans. The Company also faces the risk of deteriorating credit quality of borrowers to whom a commitment to extend credit has been made; however, no significant credit losses are expected from these commitments and arrangements.

**Regulatory Requirements for Capital**

The Company is required to comply with the risk-based capital guidelines established by the Board of Governors of the Federal Reserve System. These guidelines apply a variety of weighting factors that vary according to the level of risk associated with the assets. Capital is measured in two Tiers : Tier I consists of common shareholders equity and qualifying noncumulative perpetual preferred stock, less goodwill and certain other intangible assets; and Tier II consists of general allowance for losses on loans and leases, hybrid debt capital instruments and all or a portion of other subordinated capital debt, depending upon remaining term to maturity. Total capital is the sum of Tier I and Tier II capital. The Company's Tier I capital and total capital, as a percentage of total risk-adjusted assets, was 10.83% and 11.99%, respectively, at September 30, 2007. Both ratios exceeded the required minimum levels for these ratios of 4% and 8%, respectively, at September 30, 2007. In addition, the Company's Tier I leverage capital ratio (Tier I capital divided by total assets, less goodwill) was 8.28% at September 30, 2007, compared to the required minimum leverage capital ratio of 4%.

The Federal Deposit Insurance Corporation's capital-based supervisory system for insured financial institutions categorizes the capital position for banks into five categories, ranging from well capitalized to critically undercapitalized. For a bank to classify as well capitalized, the Tier I capital, total capital and leverage capital ratios must be at least 6%, 10% and 5%, respectively. The Bank met the criteria for the well capitalized category at September 30, 2007 as its Tier I capital, total capital and leverage capital ratios were 10.49%, 11.65% and 8.00%, respectively.

There are various legal and regulatory limits on the extent to which the Bank may pay dividends or otherwise supply funds to the Company. In addition, federal and state regulatory agencies have the authority to prevent a bank, bank holding company or financial holding company from paying a dividend or engaging in any other activity that, in the opinion of the agency, would constitute an unsafe or unsound practice. The Company does not expect these limitations to cause a material adverse effect with regard to its ability to meet its cash obligations.

**Uses of Capital**

The Company may pursue acquisitions of depository institutions and businesses closely related to banking that further the Company's business strategies. The Company anticipates that consideration for any such transactions would be shares of the Company's common stock, cash or a combination thereof. For example, the merger with City Bancorp was completed on March 1, 2007 and the consideration in that transaction was a combination of shares of the Company's common stock and cash.

On March 21, 2007, the Company announced a new stock repurchase program whereby the Company may acquire up to three million shares of its common stock in the open market at prevailing market prices or in privately negotiated transactions during the period from May 1, 2007 through April 30, 2009. The extent and timing of any repurchases will depend on market conditions and other corporate considerations. Repurchased shares will be held as authorized but unissued shares. These authorized but unissued shares will be available for use in connection with

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the Company's stock option plans, other compensation programs, other transactions or for other corporate purposes as determined by the Company's Board of Directors. As of September 30, 2007, 332,000 shares had been repurchased under this program. The Company will continue to evaluate additional share repurchases under this repurchase program and will evaluate whether to adopt a new stock repurchase program before the current program expires. From January 1, 2001 through September 30, 2007, the Company repurchased approximately 11.9 million shares of its common stock under various repurchase plans authorized by the Company's Board of Directors. The Company conducts its stock repurchase program by using funds received in the ordinary course of business. The Company has not experienced, and does not expect to experience, a material adverse effect on its capital resources or liquidity in connection with its stock repurchase program during the term of the program. See Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds included herein for information about the Company's repurchases during the three months ended September 30, 2007.

In 2002, the Company issued \$128.87 million in 8.15% Junior Subordinated Debt Securities to BancorpSouth Capital Trust I (the Trust), a business trust. The Trust used the proceeds from the issuance of five million shares of 8.15% trust preferred securities, \$25 face value per share, to acquire the Junior Subordinated Debt Securities. Both the Junior Subordinated Debt Securities and the trust preferred securities mature on January 28, 2032, and are callable at the option of the Company. The \$125 million in trust preferred securities issued by the Trust qualifies as Tier I capital under Federal Reserve Board guidelines. The Company may prepay the Junior Subordinated Debt Securities, and in turn the trust preferred securities, at a prepayment price of 100% of the principal amount of these securities within 90 days of a determination by the Federal Reserve Board that trust preferred securities will no longer qualify as Tier I capital.

The Company assumed \$6.19 million in Junior Subordinated Debt Securities and the related \$6 million in trust preferred securities pursuant to the merger on December 31, 2004 with Business Holding Corporation and assumed \$3.09 million in Junior Subordinated Debt Securities and the related \$3 million in trust preferred securities pursuant to the merger on December 31, 2004 with Premier Bancorp, Inc. The Company also assumed \$6.70 million in Junior Subordinated Debt Securities and the related \$6.50 million in trust preferred securities pursuant to the merger on December 1, 2005 with American State Bank Corporation and \$18.56 million in Junior Subordinated Debt Securities and the related \$18.00 million in trust preferred securities pursuant to the merger on March 1, 2007 with City Bancorp. The Junior Subordinated Debt Securities and the related trust preferred securities assumed from Premier Bancorp, Inc. were redeemed on November 7, 2007. After the redemption, the Company's remaining aggregate of \$30.50 million in assumed trust preferred securities qualifies as Tier I capital under Federal Reserve Board guidelines. For more information, see Note 7 to the Company's Consolidated Financial Statements included elsewhere in this report.

**Certain Litigation Contingencies**

The Company and its subsidiaries are engaged in lines of business that are heavily regulated and involve a large volume of financial transactions with numerous customers through offices in eight states. Although the Company and its subsidiaries have developed policies and procedures to minimize the impact of legal noncompliance and other disputes, litigation presents an ongoing risk.

The Company and its subsidiaries are defendants in various lawsuits arising out of the normal course of business, including claims against entities to which the Company is a successor as a result of business combinations. In the opinion of management, the ultimate resolution of such matters should not have a material adverse effect on the Company's consolidated financial position or results of operations. Litigation is, however, inherently uncertain, and the Company cannot make assurances that it will prevail in any of these actions, nor can it estimate with reasonable certainty the amount of damages that it might incur.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

During the nine months ended September 30, 2007, there were no significant changes to the quantitative and qualitative disclosures about market risks presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

**Table of Contents****ITEM 4. CONTROLS AND PROCEDURES.**

The Company, with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation and as of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to allow timely decisions regarding disclosure in its reports that the Company files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934. There have been no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II  
OTHER INFORMATION**

**ITEM 1A. RISK FACTORS.**

There have been no material changes from the risk factors previously disclosed in our annual report on Form 10-K for the year ended December 31, 2006.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

The Company made the following purchases of its common stock during the quarter ended September 30, 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31	20,000	\$ 23.44	20,000	2,805,000
August 1 - August 31	88,300	23.11	88,300	2,716,700
September 1 - September 30	48,700	24.42	48,700	2,668,000
<b>Total</b>	<b>157,000</b>			

(1) On March 31, 2007, the Company announced a stock repurchase program pursuant to which the Company may purchase up to 3.0 million shares of its common stock

prior to  
April 30, 2009.  
During the three  
months ended  
September 30,  
2007, the  
Company  
terminated no  
stock repurchase  
plans or  
programs prior  
to expiration.

**ITEM 6. EXHIBITS.**

- (3) (a) Articles of Incorporation, as amended and restated. (1)
- (b) Bylaws, as amended and restated. (2)
- (c) Amendment No. 1 to Amended and Restated Bylaws. (3)
- (d) Amendment No. 2 to Amended and Restated Bylaws. (4)
- (e) Amendment No. 3 to Amended and Restated Bylaws. (4)
- (4) (a) Specimen Common Stock Certificate. (5)

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- (b) Rights Agreement, dated as of April 24, 1991, including as Exhibit A the forms of Rights Certificate and of Election to Purchase and as Exhibit B the summary of Rights to Purchase Common Shares. (6)
- (c) First Amendment to Rights Agreement, dated as of March 28, 2001. (7)
- (d) Amended and Restated Certificate of Trust of BancorpSouth Capital Trust I. (8)
- (e) Second Amended and Restated Trust Agreement of BancorpSouth Capital Trust I, dated as of January 28, 2002, between BancorpSouth, Inc., The Bank of New York, The Bank of New York (Delaware) and the Administrative Trustees named therein. (9)
- (f) Junior Subordinated Indenture, dated as of January 28, 2002, between BancorpSouth, Inc. and The Bank of New York. (9)
- (g) Guarantee Agreement, dated as of January 28, 2002, between BancorpSouth, Inc. and The Bank of New York. (9)
- (h) Junior Subordinated Debt Security Specimen. (9)
- (i) Trust Preferred Security Certificate for BancorpSouth Capital Trust I. (7)
- (j) Certain instruments defining the rights of certain holders of long-term debt securities of the Registrant are omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K. The Registrant hereby agrees to furnish copies of these instruments to the SEC upon request.
- (31.1) Certification of the Chief Executive Officer of BancorpSouth, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- (31.2) Certification of the Chief Financial Officer of BancorpSouth, Inc. pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- (32.1) Certification of the Chief Executive Officer of BancorpSouth, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- (32.2) Certification of the Chief Financial Officer of BancorpSouth, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- (1) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (file number 1-12991) and incorporated by reference thereto.
- (2) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended

December 31, 1998 (file number 1-12991) and incorporated by reference thereto.

- (3) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (file number 1-12991) and incorporated by reference thereto.
- (4) Filed as exhibits 3.1 and 3.2 to the Company's Current Report on Form 8-K filed on January 26, 2007 (File number 1-12991) and incorporated by reference thereto.
- (5) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 (file number 0-10826) and incorporated by reference thereto.



- (6) Filed as exhibit 1 to the Company's registration statement on Form 8-A filed on April 24, 1991 (file number 0-10826) and incorporated by reference thereto.
  
- (7) Filed as exhibit 2 to the Company's amended registration statement on Form 8-A/A filed on March 28, 2001 (file number 1-12991) and incorporated by reference thereto.
  
- (8) Filed as exhibits 4.12 and 4.13 to the Company's registration statement on Form S-3 filed on November 2, 2001 (Registration No. 33-72712) and incorporated by reference thereto.
  
- (9) Filed as an exhibit to the Company's Current Report on Form 8-K filed on January 28,

2002 (file  
number  
1-12991) and  
incorporated by  
reference  
thereto.

\* Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BancorpSouth, Inc.  
(Registrant)

DATE: November 8, 2007

/s/ L. Nash Allen, Jr.  
L. Nash Allen, Jr.  
Treasurer and Chief Financial Officer

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**INDEX TO EXHIBITS**

Exhibit No.	Description
(3)	(a) Articles of Incorporation, as amended and restated. (1)
	(b) Bylaws, as amended and restated. (2)
	(c) Amendment No. 1 to Amended and Restated Bylaws. (3)
	(d) Amendment No. 2 to Amended and Restated Bylaws. (4)
	(e) Amendment No. 3 to Amended and Restated Bylaws. (4)
(4)	(a) Specimen Common Stock Certificate. (5)
	(b) Rights Agreement, dated as of April 24, 1991, including as Exhibit A the forms of Rights Certificate and of Election to Purchase and as Exhibit B the summary of Rights to Purchase Common Shares. (6)
	(c) First Amendment to Rights Agreement, dated as of March 28, 2001. (7)
	(d) Amended and Restated Certificate of Trust of BancorpSouth Capital Trust I. (8)
	(e) Second Amended and Restated Trust Agreement of BancorpSouth Capital Trust I, dated as of January 28, 2002, between BancorpSouth, Inc., The Bank of New York, The Bank of New York (Delaware) and the Administrative Trustees named therein. (9)
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thereto.

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ended  
December 31,  
1994 (file  
number  
0-10826) and  
incorporated by  
reference  
thereto.

- (6) Filed as exhibit  
1 to the  
Company's  
registration  
statement on  
Form 8-A filed  
on April 24,  
1991 (file  
number  
0-10826) and  
incorporated by  
reference  
thereto.

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(7) Filed as exhibit 2 to the Company's amended registration statement on Form 8-A/A filed on March 28, 2001 (file number 1-12991) and incorporated by reference thereto.

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(9) Filed as an exhibit to the Company's Current Report on Form 8-K filed on January 28, 2002 (file number 1-12991) and incorporated by reference thereto.

\* Filed herewith.