ESTEE LAUDER COMPANIES INC
Form 4
December 28, 2007

FORM 4

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

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
STERNLICHT BARRY S

(Last) (First) (Middle)

STARWOOD CAPITAL GROUP, 591 W. PUTNAM AVE.

(Street)

GREENWICH, CT 06830

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ESTEE LAUDER COMPANIES INC [EL]

3. Date of Earliest Transaction (Month/Day/Year)
12/27/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of Derivative	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. Price Deriva

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)		Securit (Instr.
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Units (Share Payout)	(1)	12/27/2007		A (2)		24.76		(3)	(3)	Class A Common Stock	24.76	$ 43.
Stock Units (Cash Payout)	(1)	12/27/2007		A (2)		87.32		(3)	(3)	Class A Common Stock	87.32	$ 43.

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
STERNLICHT BARRY S STARWOOD CAPITAL GROUP 591 W. PUTNAM AVE. GREENWICH, CT 06830	X			

Signatures

Barry S. Sternlicht, by Spencer G. Smul, Attorney-in-fact	12/28/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Not applicable.

(2) Represents reinvestment of dividend equivalents on outstanding stock units.

(3) The stock units will be paid out the first business day of the calendar year following the last date of the Reporting Person's service as a director of the Company.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Net amount recognized
$(3,914) $25,951 $(15,183)

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		
	2008	2007	2006
	(In thousands)		
Prepaid benefit cost	$ 73,375	$ 58,999	$ 23,523
Accrued benefit liability	(15,073)	(13,006)	(10,842)
Intangible asset			
Accumulated other comprehensive income adjustment	(62,216)	(20,042)	(27,864)
Net amount recognized	$ (3,914)	$ 25,951	$ (15,183)

Pre-tax amounts recognized in accumulated other comprehensive income consist of:

	Year ended December 31,	
	2008	2007
	(In thousands)	
Net transition obligation	$ 110	$ 129
Net prior service cost	1,975	2,242
Net actuarial loss	60,131	17,671
Total accumulated other comprehensive income	$ 62,216	$ 20,042

The net transition obligation, net prior service cost and net actuarial loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are approximately $18,000, $299,000 and $4,525,000, respectively.

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The components of net periodic benefit cost at December 31, 2008, 2007 and 2006 were as follows:

	Pension Benefits		
	2008	2007	2006
		(In thousands)	
Components of net periodic benefit cost:			
Service cost	$ 7,146	$ 7,835	$ 7,034
Interest cost	6,693	6,129	5,442
Expected return on assets	(10,715)	(9,122)	(5,941)
Amortization of unrecognized transition amount	18	18	18
Recognized prior service cost	267	256	239
Recognized net loss	499	1,700	1,909
Net periodic benefit cost	$ 3,908	$ 6,816	$ 8,701

The weighted-average assumptions used to determine benefit obligations at December 31, 2008 and 2007 were as follows:

	Basic Plan		Restoration Plan		Supplemental Plan	
	2008	2007	2008	2007	2008	2007
Discount rate	6.25%	6.33%	6.50%	6.33%	6.50%	6.33%
Rate of compensation increase*	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%

* 2.00% rate of compensation increase used for 2009; 3.60% rate of compensation increase used for 2010 and beyond.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2008, 2007 and 2006 were as follows:

	Pension Benefits		
	2008	2007	2006
Discount rate	6.33%	5.75%	5.75%
Rate of compensation increase	3.60%	4.00%	4.00%
Expected rate of return on plan assets	8.00%	8.00%	8.00%

The following table presents information related to the Restoration Plan and Supplemental Plan that had accumulated benefit obligations in excess of plan assets at December 31, 2008 and 2007:

	2008	2007
	(In thousands)	
Projected benefit obligation	$18,597	$17,712
Accumulated benefit obligation	16,610	16,453
Fair value of assets		

The following table presents information related to the Company s defined benefit pension plans:

	2008	2007
	(In thousands)	
Accumulated benefit obligation	$103,399	$94,553

In selecting the expected long-term rate of return on assets used for the Basic Plan, the Company considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plan. This included considering the trust asset allocation and the expected returns likely to be earned over the life of the plan. This basis is consistent with the prior year. The discount rate is the rate used to determine the present value of the Company s future benefit obligations for its pension and other postretirement benefit plans. In selecting the discount rate used to discount plan liabilities, a level equivalent yield was developed using the

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expected cash flows based on the December 31, 2008 Citigroup Pension Discount Curve. The Citigroup Pension Discount Curve is published on the Society of Actuaries website along with a background paper on this interest rate curve. In 2007, the Company developed a level equivalent yield using the expected cash flows based on the December 31, 2007 Citigroup Pension Liability Curve. In years prior to 2007, the Company used a rate that reflected the rates available on long-term, high-quality, fixed-income debt instruments.

The Company s pension plan weighted-average asset allocations at December 31, 2008 and 2007, by asset category, are as follows:

	Plan assets at December 31		Target for
	2008	2007	2009
Asset category:			
Equity securities	63.78%	59.87%	40-60%
Debt securities	31.34%	33.88%	40-60%
Other	4.88%	6.25%	0%
Total	100.00%	100.00%	

Equity securities held in the Basic Plan include shares of the Company s common stock with a fair value of $1.9 million (1.65% of total plan assets) and $1.9 million (1.44% of total plan assets) at December 31, 2008 and 2007, respectively. The Company expects to contribute approximately $36.1 million to the Basic Plan in 2009.

The following table presents information regarding expected future benefit payments, which reflect expected service, as appropriate:

	Pension Benefits (In thousands)
Expected future benefit payments:	
2009	$ 7,782
2010	7,205
2011	6,440
2012	9,608
2013	8,347
2014-2018	48,710

The Company has a defined contribution plan (commonly referred to as a 401(k) Plan). Pursuant to the 401(k) Plan, employees may contribute a portion of their compensation, as set forth in the 401(k) Plan, subject to the limitations as established by the Code. Employee contributions (up to 5% of defined compensation) are matched dollar-for-dollar by the Company. Under the terms of the 401(k) Plan, contributions matched by the Company are used to purchase shares of Company common stock at prevailing market prices. The 401(k) Plan permits employees to diversify their holdings of shares of Company common stock by selling some or all of their shares of Company common stock and reinvesting the proceeds in other investments. Employer contributions for the years ended December 31, 2008, 2007 and 2006 were $7.7 million, $7.6 million and $6.6 million, respectively. Also, effective January 1, 2006, the 401(k) Plan provides that the Company shall make a profit sharing contribution on behalf of each eligible employee in an amount equal to two percent of each such employee s eligible compensation. Eligible employees are those hired after December 31, 2005 who work at least 1,000 hours during the plan year and have attained the age of 21. Employer contributions for the years ended December 31, 2008, 2007 and 2006 were approximately $1.3 million, $465,000 and $141,000, respectively.

(14) FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions are set forth below for the Company s financial instruments.

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Securities

The carrying amounts for short-term securities approximate fair value because of their short-term maturity (90 days or less) and do not present an unexpected credit risk. The fair value of most longer-term securities is estimated based on market prices or dealer quotes. See Note 3, Held-to-Maturity Securities, Note 4, Available-for-Sale Securities and Note 22, Fair Value Disclosures, for fair values.

Loans and Leases

Fair values are estimated for portfolios of loans and leases with similar financial characteristics. The fair value of loans and leases is calculated by discounting scheduled cash flows through the estimated maturity using rates currently available that reflect the credit and interest rate risk inherent in the loan or lease. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and specific borrower information.

Average maturity represents the expected average cash flow period, which in some instances is different than the stated maturity. Management has made estimates of fair value discount rates that are believed to be reasonable. However, because there is no market for many of these financial instruments, management has no assurance that the fair value presented would be indicative of the value negotiated in an actual sale. New loan and lease rates were used as the discount rate on existing loans and leases of similar type, credit quality and maturity.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or estimated fair value and are subject to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of existing commitments or the current market value of similar loans.

Deposit Liabilities

Under SFAS No. 107, the fair value of deposits with no stated maturity, such as noninterest bearing demand deposits, interest bearing demand deposits and savings, is equal to the amount payable on demand as of December 31, 2008 and 2007. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities.

Debt

The carrying amounts for federal funds purchased and repurchase agreements approximate fair value because of their short-term maturity. The fair value of the Company s fixed-term FHLB advance securities is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently available for advances of similar maturities. The fair value of the Company s junior subordinated debt is based on market prices or dealer quotes.

Derivative Instruments

The Company has commitments to fund fixed-rate mortgage loans and forward commitments to sell individual fixed-rate mortgage loans. The fair value of these derivative instruments is based on observable market prices. The Company also enters into interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. The fair value of these instruments is either an observable market price or a discounted cash flow valuation using the terms of swap agreements but substituting original interest rates with current interest rates. See Note 22, Fair Value Disclosures, and Note 23, Derivatives, for additional fair value information regarding these instruments.

Lending Commitments

The Company s lending commitments are negotiated at current market rates and are relatively short-term in nature. As a matter of policy, the Company generally makes commitments for fixed-rate loans for relatively short periods of time. Therefore, the estimated value of the Company s lending commitments approximates the carrying amount and is immaterial to the financial statements. See Note 24, Commitments and Contingent Liabilities, for additional information regarding lending commitments.

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The following table presents carrying and fair value information at December 31, 2008 and 2007:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Assets :				
Cash and due from banks	$ 291,055	$ 291,055	$ 322,926	$ 322,926
Interest bearing deposits with other banks	13,542	13,542	12,710	12,710
Held-to-maturity securities	1,333,521	1,392,205	1,625,916	1,651,445
Available-for-sale and trading securities	982,859	982,859	1,001,194	1,001,194
Net loans and leases	9,558,484	9,634,721	9,064,487	9,221,362
Loans held for sale	189,242	197,310	128,532	132,442
Liabilities:				
Noninterest bearing deposits	1,735,130	1,735,130	1,670,198	1,670,198
Savings and interest bearing deposits	4,582,633	4,582,633	3,974,724	3,974,724
Other time deposits	3,394,109	3,426,475	4,419,177	4,419,150
Federal funds purchased and securities sold under agreement to repurchase and other short-term borrowings	1,896,876	1,893,630	1,516,484	1,501,958
Long-term debt and other borrowings	446,745	300,539	249,488	227,539
Derivative instruments:				
Forward commitments to sell fixed rate mortgage loans	(1,944)	(1,944)	(232)	(232)
Commitments to fund fixed rate mortgage loans	1,261	1,261	84	84
Interest rate swap position to receive	42,558	42,558	4,120	4,120
Interest rate swap position to pay	(42,558)	(42,558)	(4,120)	(4,120)

(15) STOCK INCENTIVE AND STOCK OPTION PLANS

Key employees and directors of the Company and its subsidiaries have been granted stock options and stock appreciation rights (SARs) under the Company s 1994, 1995 and 1998 stock incentive plans (the Plans). The 1994 and 1995 stock incentive plans were amended in 1998 to eliminate SARs and to allow a limited number of restricted stock awards. All options and SARs granted pursuant to these plans have an exercise price equal to the market value on the date of the grant and are exercisable over periods of one to ten years. Upon the exercise of stock options, new shares are issued by the Company.

No SARs have been granted since 1997 and none were outstanding at December 31, 2008. The Company recorded a reversal of compensation expense related to SARs of $21,000 in 2007 and compensation expense of $215,000 in 2006 because of changes in the market value of the Company s common stock.

In 1998, the Company adopted a stock plan through which a minimum of 50% of the compensation payable to each director is paid in the form of the Company s common stock. This plan is registered under the Company s dividend reinvestment plan and the shares are purchased through the Company s dividend reinvestment plan which purchases shares in the open market.

On December 14, 2005, the Company s Board of Directors approved accelerating the vesting of out-of-the-money unvested outstanding stock options held by employees. The options were considered out-of-the-money if the exercise price of the option was greater than $23.02, the closing price of shares of the Company s common stock on the New York Stock Exchange on December 14, 2005. The accelerated vesting was effective on December 14, 2005. Vesting of these options was accelerated to eliminate the need to recognize the remaining fair value compensation expense associated with those options upon adoption of Statement 123R. The compensation cost avoided by the accelerated vesting was approximately $291,000, $623,000 and $945,000 in 2008, 2007 and 2006, respectively.

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SFAS 123R requires that compensation expense be measured using estimates of fair value of all stock-based awards. We are using the modified prospective method for recognizing the expense over the remaining vesting period for awards that were outstanding but unvested at January 1, 2006. Under the modified prospective method, the adoption of SFAS 123R applies to new awards and to awards modified after December 31, 2005 as well as to the unvested portion of awards outstanding as of January 1, 2006. In accordance with the modified prospective method, we have not adjusted the financial statements for periods ended prior to January 1, 2006. Compensation expense arising from stock options that has been charged against income for those plans was approximately $1.2 million, $793,000 and $247,000 for 2008, 2007 and 2006, respectively. As of December 31, 2008, there was $3.3 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a three year period.

In November 2008, the Company granted stock options to purchase 355,250 shares of the Company s common stock to its employees under the 1994 stock incentive plan, as amended. These stock options have a contractual life of seven years and vest over a three-year service period. A summary of the stock option activity under the Company Plans as of December 31, 2008 and changes during the year then ended is presented below:

	2008			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($000)
Options				
Outstanding at January 1, 2008	3,102,641	$ 20.99		
Granted	355,250	24.27		
Exercised	(802,978)	19.49		
Expired or cancelled	(54,430)	22.21		
Outstanding at December 31, 2008	2,600,483	$ 21.87	5.2	$ 4,850
Exercisable at December 31, 2008	1,965,297	$ 21.20	4.8	$ 4,773

	2007			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($000)
Options				
Outstanding at January 1, 2007	3,078,822	$ 20.73		
Granted	610,384	19.69		
Exercised	(572,739)	18.20		
Expired or cancelled	(13,826)	21.10		
Outstanding at December 31, 2007	3,102,641	$ 20.99	5.4	$ 8,142

Exercisable at December 31, 2007	2,587,225	$ 20.45	4.3	$ 8,179

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A summary of the status of the Company s nonvested options as of December 31, 2008 and changes during the year then ended is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Nonvested Options			
Outstanding at January 1, 2008	515,381	$ 23.68	$ 5.17
Granted	355,250	24.27	6.24
Vested	(223,247)	23.88	5.34
Expired or cancelled	(12,198)	24.24	5.16
Outstanding at December 31, 2008	635,186	$ 23.68	$ 5.71

The Company uses historical data to estimate stock option exercise and employee departure behavior used in the Black-Scholes-Merton option valuation model; groups of participants (executive, non-executives and directors) are considered separately for valuation purposes. The expected term of stock options granted is derived from analysis of all historical data on stock option activity and represents the period of time that stock options granted are expected to be outstanding; the range given below results from certain groups of participants exhibiting different post-vesting behaviors. The risk-free rate for periods within the contractual term of the stock option is based on the U. S. Treasury yield curve in effect at the time of grant. The expected volatility is estimated based on the Company s historical experience. The following table provides the range of assumptions used for stock options granted:

	2008	2007	2006
Expected volatility	33.6%	24.7% - 27.6%	23.2% - 27.6%
Weighted-average volatility	33.6%	25.0%	24.6%
Expected dividends	3.00%	3.00%	3.00%
Expected term (in years)	5.1 - 5.7	5.1 - 7.0	5.1 - 5.7
Risk-free rate	2.80%	4.0% - 4.6%	4.5% - 5.0%

The weighted-average grant-date fair value of stock options granted during the years 2008, 2007 and 2006 was $6.24, $5.05 and $5.58, respectively. The intrinsic value of stock options exercised during the years ended December 31, 2008, 2007 and 2006 was $6.1 million, $10.4 million and $4.5 million, respectively.

The following table summarizes information about stock options outstanding at December 31, 2008:

	Options Outstanding			Options exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Avg Remaining Life (years)	Weighted-Avg Exercise Price	Number Exercisable	Weighted-Avg Exercise Price
$ 7.35 to $10.51	12,519	2.7	$ 8.61	12,519	$ 8.61
$ 11.39 to $14.98	122,970	2.0	13.56	122,970	13.56
$ 15.06 to $17.31	286,027	2.2	16.03	286,027	16.03
$ 19.18 to $25.31	2,178,967	5.7	23.18	1,543,781	22.87
$ 7.35 to $25.31	2,600,483	5.2	$ 21.87	1,965,297	$ 21.20

The 1994 stock incentive plan was amended in 2006 to allow for the issuance of performance shares. Performance shares entitle the recipient to receive shares of the Company s common stock upon the achievement of performance goals that are specified in the award over a specified performance period. The recipient of performance shares is not treated as a shareholder of the Company and is not entitled to vote or receive dividends until the performance conditions stated in the award are satisfied and the shares of stock are actually issued to the recipient. In January of 2007, the Company granted 78,000 performance shares to employees for the two-year performance period from January 1, 2007 through December 31, 2008 and in January 2008, the Company granted 85,395 performance shares to employees for the two-year performance period from January 1, 2008 through

December 31, 2009. These performance shares vest over a three-year period and are valued at the fair value of the Company s stock at the grant date based upon the estimated number of shares expected to vest. Compensation expense of approximately $758,000 was recognized in 2007 related to performance shares. This amount was reversed in 2008 as the Company failed to meet the performance threshold for the 2007-2008 performance period. No expense was recorded in 2008 for the 2008 grant as the Company does not expect to meet the performance threshold for the 2008-2009 performance period. In May of 2008, the Company awarded a total of 5,000 restricted stock units covering 5,000 shares of Company stock to its directors. The shares of stock covered by this award will be issued to the director upon the date of the first annual shareholders meeting of the Company that follows the date of the award. Compensation expense of approximately $84,000 was recognized in 2008 related to the restricted stock units issued to the Company s directors.

(16) EARNINGS PER SHARE AND DIVIDEND DATA

The computation of basic earnings per share is based on the weighted average number of common shares outstanding. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding plus the shares resulting from the assumed exercise of all outstanding stock options using the treasury stock method. The following table provides a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2008, 2007 and 2006:

	2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share amounts)		
Basic EPS:			
Income available to common shareholders	$ 120,411	82,589	$ 1.46
Effect of dilutive stock options		204	
Diluted EPS:			
Income available to common shareholders plus assumed exercise	$ 120,411	82,793	$ 1.45

	2007		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share amounts)		
Basic EPS:			
Income available to common shareholders	$ 137,943	81,506	$ 1.69
Effect of dilutive stock options		339	
Diluted EPS:			
Income available to common shareholders plus assumed exercise	$ 137,943	81,845	$ 1.69

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	2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(In thousands, except per share amounts)		
Basic EPS:			
Income available to common shareholders	$ 125,194	79,140	$ 1.58
Effect of dilutive stock options		402	
Diluted EPS:			
Income available to common shareholders plus assumed exercise	$ 125,194	79,542	$ 1.57

Dividends to shareholders are paid from dividends paid to the Company by the Bank which are subject to approval by the applicable state regulatory authority. At December 31, 2008, the Bank could have paid dividends of $541 million to the Company under current regulatory guidelines.

(17) OTHER COMPREHENSIVE INCOME

The following table presents the components of other comprehensive income and the related tax effects allocated to each component for the years ended December 31, 2008, 2007 and 2006:

	2008		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
		(In thousands)	
Unrealized gains on available-for-sale securities:			
Unrealized gains (losses) arising during holding period	$ 4,440	$ (1,691)	$ 2,749
Reclassification adjustment for net losses (gains) realized in net income	5,849	(2,237)	3,612
Change in pension funding status	(42,175)	16,132	(26,043)
Other comprehensive income (loss)	$ (31,886)	$ 12,204	$ (19,682)

	2007		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
		(In thousands)	
Unrealized gains on available-for-sale securities:			
Unrealized gains (losses) arising during holding period	$ 20,583	$ (7,871)	$ 12,712
Reclassification adjustment for net (gains) losses realized in net income	(22)	8	(14)
Change in pension funding status	7,822	(2,992)	4,830
Other comprehensive income (loss)	$ 28,383	$ (10,855)	$ 17,528

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	2006		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
		(In thousands)	
Unrealized gains on available-for-sale securities:			
Unrealized (losses) gains arising during holding period	$ 10,263	$ (3,923)	$ 6,340
Reclassification adjustment for net (gains) losses realized in net income	(36)	14	(22)
Minimum pension liability	490	(188)	302
Other comprehensive income (loss)	$ 10,717	$ (4,097)	$ 6,620

(18) RELATED PARTY TRANSACTIONS

The Bank has made, and expects in the future to continue to make in the ordinary course of business, loans to directors and executive officers of the Company and their affiliates. In management s opinion, these transactions with directors and executive officers were made on substantially the same terms as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present any other unfavorable features. An analysis of such outstanding loans is as follows:

	Amount (In thousands)
Loans outstanding at December 31, 2007	$ 29,286
New loans	29,178
Repayments	(24,729)
Changes in directors and executive officers	39,264
Loans outstanding at December 31, 2008	$ 72,999

(19) MORTGAGE SERVICING RIGHTS

MSRs are recognized based on the fair value of the servicing right on the date the corresponding mortgage loan is sold. An estimate of the fair value of the Company s MSRs is determined utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. At December 31, 2008, the valuation of MSRs included an assumed average prepayment speed of 402 and an average discount rate of 10.24%. 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 MSRs and, therefore, the Company is susceptible to significant fluctuations in the fair value of its MSRs 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 period indicated:

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	2008 (In thousands)	2007
Fair value at beginning of year	$ 32,482	$ 35,286
Additions:		
Origination of servicing assets	8,242	5,538
Changes in fair value:		
Due to change in valuation inputs or assumptions used in the valuation model	(15,735)	(8,318)
Other changes in fair value	(17)	(24)
Fair value at end of year	$ 24,972	$ 32,482

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 $8.5 million, $8.1 million and $8.1 million and late and other ancillary fees of $1.2 million, $1.0 million and $1.0 million in 2008, 2007, and 2006, respectively.

(20) REGULATORY MATTERS

The Company is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material adverse effect on the Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company s capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings and other factors. Quantitative measures established by the Board of Governors of the Federal Reserve to ensure capital adequacy require the Company to maintain minimum capital amounts and ratios (risk-based capital ratios). All banking companies are required to have core capital (Tier I) of at least 4% of risk-weighted assets, total capital of at least 8% of risk-weighted assets and a minimum Tier I leverage ratio of 4% of adjusted average assets. The regulations also define well capitalized levels of Tier I, total capital and Tier I leverage as 6%, 10% and 5%, respectively. The Company and the Bank had Tier I, total capital and Tier I leverage above the well capitalized levels at December 31, 2008 and 2007, respectively, as set forth in the following table:

	2008		2007	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Tier I capital (to risk-weighted assets)				
BancorpSouth, Inc.	$1,123,028	10.79%	$1,074,654	10.96%
BancorpSouth Bank	1,076,473	10.35	1,040,938	10.63
Total capital (to risk-weighted assets)				
BancorpSouth, Inc.	1,253,174	12.04	1,190,396	12.14
BancorpSouth Bank	1,206,619	11.61	1,156,680	11.81
Tier I leverage capital (to average assets)				
BancorpSouth, Inc.	1,123,028	8.65	1,074,654	8.39
BancorpSouth Bank	1,076,473	8.30	1,040,938	8.13

(21) SEGMENTS

The Company is a financial holding company with subsidiaries engaged in the business of banking and activities closely related to banking. The Bank s principal activity is community banking, which includes providing a full range of deposit products, commercial loans and consumer loans. During 2008, the Company created an additional operating segment, insurance agencies, based upon the services offered, the significance of those services to the Company s financial condition and operating results and management s regular review of the operating results of the insurance agencies. The insurance agencies serve as agents in the sale of title insurance, commercial lines of insurance and full lines of property and casualty, life, health and employee benefits products and services. The Bank s general corporate and other operating segment includes leasing, mortgage lending, trust services, credit card activities, investment services and other activities not allocated to community banking or insurance agencies.

Results of operations and selected financial information by operating segment for the three years ended December 31, 2008, 2007 and 2006 are presented below:

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
2008				
Results of Operations				
Net interest revenue	$ 403,316	$ 1,259	$ 36,261	$ 440,836
Provision for credit losses	56,167		9	56,176
Net interest income after provision for credit losses	347,149	1,259	36,252	384,660
Noninterest revenue	125,713	86,431	30,236	242,380
Noninterest expense	292,239	70,684	89,763	452,686
Income (loss) before income taxes	180,623	17,006	(23,275)	174,354
Income taxes	55,883	6,729	(8,669)	53,943
Net income (loss)	$ 124,740	$ 10,277	$ (14,606)	$ 120,411
Selected Financial Information				
Total assets	$ 11,139,348	$ 153,456	$ 2,187,414	$ 13,480,218
Depreciation and amortization	28,396	4,891	2,392	35,679

	Community Banking	Insurance Agencies	General Corporate and Other	Total
	(In thousands)			
2007				
Results of Operations				
Net interest revenue	$ 385,822	$ 2,423	$ 34,654	$ 422,899
Provision for credit losses	22,641		55	22,696
Net interest income after provision for credit losses	363,181	2,423	34,599	400,203
Noninterest revenue	125,869	70,592	35,338	231,799
Noninterest expense	283,492	55,326	89,240	428,058
Income (loss) before income taxes	205,558	17,689	(19,303)	203,944
Income taxes	66,523	6,973	(7,495)	66,001
Net income (loss)	$ 139,035	$ 10,716	$ (11,808)	$ 137,943

Selected Financial Information				
Total assets	$ 11,075,662	$ 124,085	$ 1,990,094	$ 13,189,841
Depreciation and amortization	27,425	3,090	2,510	33,025

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	Community Banking	Insurance Agencies	General Corporate and Other	Total
		(In thousands)		
2006				
Results of Operations				
Net interest revenue	$ 351,444	$ 1,886	$ 32,469	$ 385,799
Provision for credit losses	8,496		81	8,577
Net interest income after provision for credit losses	342,948	1,886	32,388	377,222
Noninterest revenue	109,026	62,610	34,458	206,094
Noninterest expense	259,537	50,416	83,201	393,154
Income (loss) before income taxes	192,437	14,080	(16,355)	190,162
Income taxes	65,745	5,496	(6,273)	64,968
Net income (loss)	$ 126,692	$ 8,584	$ (10,082)	$ 125,194
Selected Financial Information				
Total assets	$ 10,122,447	$ 112,607	$ 1,805,467	$ 12,040,521
Depreciation and amortization	24,700	3,305	2,226	30,231

(22) FAIR VALUE DISCLOSURES

Fair value is defined by SFAS No. 157 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting entity s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The Company adopted the provisions of SFAS No. 157 and FSP FAS 157-2 on January 1, 2008. The adoption of these pronouncements did not have a material effect on the Company s financial condition or results of operations.

Determination of Fair Value

The Company uses the valuation methodologies listed below to measure different financial instruments at fair value. An indication of the level in the fair value hierarchy in which each instrument is generally classified is included. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

Available-for-sale securities. Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities. The Company s available-for-sale securities that are traded on an

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active exchange, such as the New York Stock Exchange, are classified as Level 1. Available-for-sale securities valued using matrix pricing are classified as Level 2. During the year ended December 31, 2008, the Company transferred pooled trust preferred securities in the available-for-sale portfolio from Level 2 to Level 3. Market prices of comparable instruments became harder to identify due to inactive markets, which made it necessary for the Company to make adjustments to the matrix prices to compensate for the present value of expected cash flows, market liquidity, credit quality and volatility. As a result, the Company utilized Level 3 inputs of greater significance, which required the Company to move the valuation of these securities from Level 2 to Level 3.

Mortgage servicing rights. The Company records MSRs at fair value on a recurring basis with subsequent remeasurement of MSRs based on change in fair value. In determining fair value, 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. All of the Company s MSRs are classified as Level 3.

Derivative instruments. The Company s derivative instruments consist of commitments to fund fixed-rate mortgage loans to customers, forward commitments to sell individual fixed-rate mortgage loans and interest rate swaps. The derivative instruments are traded in over-the-counter markets where quoted market prices are not readily available. Fair value is measured on a recurring basis using internally developed models that use primarily market observable inputs, such as yield curves and option volatilities. The Company s interest rate swaps are classified as Level 2. The Company s commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual fixed-rate mortgage loans are classified as Level 3.

Loans held for sale. Loans held for sale are carried at the lower of cost or estimated fair value and are subject to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of existing commitments or the current market value of similar loans. All of the Company s loans held for sale are classified as Level 2.

Impaired loans. Loans considered impaired under SFAS No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosure, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value. All of the Company s impaired loans are classified as Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Assets:				
Available-for-sale securities	$ 351	$ 980,133	$ 2,375	$ 982,859
Mortgage servicing rights			24,972	24,972
Derivative instruments		42,558	1,268	43,826
Total	$ 351	$ 1,022,691	$ 28,615	$ 1,051,657
Liabilities:				
Derivative instruments	$	$ 42,558	$ 1,951	$ 44,509

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The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2008:

	Mortgage Servicing Rights	Derivative Instruments	Available-for-sale Securities
		(In thousands)	
Balance at December 31, 2007	$ 32,482	$ (147)	$
Total net losses for the year included in:			
Net income	(7,510)	(536)	(8,625)
Other comprehensive income			3,366
Purchases, sales, issuances and settlements, net			
Transfers in and/or out of Level 3			7,634
Balance at December 31, 2008	$ 24,972	$ (683)	$ 2,375
Net unrealized losses included in net income for the year relating to assets and liabilities held at December 31, 2008	$ (15,735)	$ (536)	$ (8,625)

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The following table presents the balances of assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2008:

	Level 1	Level 2	Level 3	Total	Total Gains (Losses)
			(In thousands)		
Assets:					
Impaired loans	$	$	$ 12,756	$ 12,756	$ (4,743)

(23) DERIVATIVE INSTRUMENTS

The derivative instruments held by the Company include commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell individual, fixed-rate mortgage loans. The Company s objective in obtaining the forward commitments is to mitigate the interest rate risk associated with the commitments to fund the fixed-rate mortgage loans. Both the commitments to fund fixed-rate mortgage loans and the forward commitments to sell individual fixed-rate mortgage loans are reported at fair value, with adjustments being recorded in current period earnings, and are not accounted for as hedges. At December 31, 2008, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was $139.7 million, with a carrying value and fair value reflecting a loss of $1.9 million. At December 31, 2007, the notional amount of forward commitments to sell individual fixed-rate mortgage loans was $60.3 million, with a carrying value and fair value reflecting a loss of approximately $199,000. At December 31, 2008, the notional amount of commitments to fund individual fixed-rate mortgage loans was $84.3 million, with a carrying value and fair value reflecting a gain of $1.3 million. At December 31, 2007, the notional amount of commitments to fund individual fixed-rate mortgage loans was $18.6 million, with a carrying value and fair value reflecting a gain of approximately $67,000.

The Company also enters into derivative financial instruments in the form of interest rate swaps to meet the financing, interest rate and equity risk management needs of its customers. Upon entering into these interest rate swaps to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any resulting gain or loss recorded in current period earnings. These instruments and their offsetting positions are recorded in other assets and other liabilities on the consolidated balance sheets. As of December 31, 2008, the notional amount of customer related derivative financial instruments was $654.2 million, with an average maturity of 86 months, an average interest receive rate of 3.8% and an average interest pay rate of 6.3%. As of December 31, 2007, the notional amount of customer related derivative financial instruments was $153.6 million, with an average maturity of 110 months, an average interest receive rate of 8.6% and an average interest pay rate of 6.4%.

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(24) COMMITMENTS AND CONTINGENT LIABILITIES

Leases

Rent expense was $7.6 million for 2008, $6.1 million for 2007 and $6.0 million for 2006. Future minimum lease payments for all non-cancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2008:

(In thousands)	Amount
2009	$ 5,465
2010	4,153
2011	3,290
2012	2,924
2013	1,896
Thereafter	6,156
Total future minimum lease payments	$ 23,884

Mortgage Loans Serviced for Others

The Company services mortgage loans for others that are not included as assets in the Company s accompanying consolidated financial statements. Included in the $3.1 billion of loans serviced for investors at December 31, 2008 is $1.6 million of primary recourse servicing pursuant to which the Company is responsible for any losses incurred in the event of nonperformance by the mortgagor. The Company s exposure to credit loss in the event of such nonperformance is the unpaid principal balance at the time of default. This exposure is limited by the underlying collateral, which consists of single family residences and either federal or private mortgage insurance.

Lending Commitments

In the normal course of business, there are outstanding various commitments and other arrangements for credit which are not reflected in the consolidated balance sheets. As of December 31, 2008, these included approximately $184 million for letters of credit and approximately $2.4 billion for interim mortgage financing, construction credit, credit card and revolving line of credit arrangements. The Company did not realize significant credit losses from these commitments and arrangements during the years ended December 31, 2008, 2007 and 2006.

Litigation

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 nine 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.

The Company reported litigation expense of approximately $2.3 million in 2007 as a result of legal and other accruals established relative to the Company s guarantee of Visa, Inc. s projected obligations for certain litigation matters. These reserves were recorded as other liabilities and pertain to Visa, Inc. s settlement with American Express, as well as other pending Visa, Inc. litigation and were based on information available from Visa, Inc. and other member banks. The Bank, as a member of Visa, Inc., is obligated to share in certain liabilities associated with Visa, Inc. s settled and pending litigation. During the first quarter of 2008, $1.1 million of this reserve was reversed and recorded as a reduction of litigation expense as a result of Visa, Inc. s initial public offering and its deposit of a portion of the net proceeds thereof into an escrow account from which settlement of, or judgments relating to, the covered litigation may be paid.

During the second quarter of 2008, $1.1 million of the reserve related to previously recorded litigation contingencies was reversed as a result of a favorable court ruling.

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Income Taxes

During the second quarter of 2006, the State Tax Commission of the State of Mississippi and the Company resolved the issues related to the State Tax Commission s audit of the Company s income tax returns for the tax years 1998 through 2001. As a result, the Company paid additional taxes in the amount of $40,000 plus interest of $25,000. The balance of the previously recorded liability related to this matter of approximately $2.0 million was credited against the Company s 2006 second quarter s income tax expense.

Restricted Cash Balance

Aggregate reserves (in the form of deposits with the Federal Reserve Bank) of $8.0 million were maintained to satisfy federal regulatory requirements at December 31, 2008.

(25) CONDENSED PARENT COMPANY INFORMATION

The following condensed financial information reflects the accounts and transactions of the Company (excluding its subsidiaries) at the dates indicated:

Condensed Balance Sheets

	December 31	
	2008	2007
	(In thousands)	
Assets:		
Cash on deposit with subsidiary bank	$ 33,955	$ 21,096
Investment in subsidiaries	1,354,094	1,323,310
Other assets	14,452	16,104
Total assets	$ 1,402,501	$ 1,360,510
Liabilities and shareholders equity:		
Total liabilities	$ 162,241	$ 163,884
Shareholders equity	1,240,260	1,196,626
Total liabilities and shareholders equity	$ 1,402,501	$ 1,360,510

Condensed Statements of Income

	Year Ended December 31		
	2008	2007	2006
		(In thousands)	
Dividends from subsidiaries	$ 80,000	$ 175,000	$ 90,000
Other operating income	215	192	530
Total income	80,215	175,192	90,530
Operating expenses	16,821	17,872	16,053
Income before tax benefit and equity in undistributed earnings	63,394	157,320	74,477
Income tax benefit	6,351	6,762	5,937
Income before equity in undistributed earnings of subsidiaries	69,745	164,082	80,414
Equity in undistributed earnings of subsidiaries	50,666	(26,139)	44,780

Net income	$ 120,411	$ 137,943	$ 125,194

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Condensed Statements of Cash Flows

	Year Ended December 31		
	2008	2007	2006
		(In thousands)	
Operating activities:			
Net income	$ 120,411	$ 137,943	$ 125,194
Adjustments to reconcile net income to net cash provided by operating activities	(40,389)	28,833	(50,184)
Net cash provided by operating activities	80,022	166,776	75,010
Investing activities:			
Net cash paid for acquisitions	(10,607)	(83,027)	0
Net cash used in investing activities	(10,607)	(83,027)	
Financing activities:			
Redemption of junior subordinated debt		(3,093)	
Cash dividends	(71,883)	(77,735)	(61,890)
Common stock transactions, net	15,327	(6,649)	(5,830)
Net cash used in financing activities	(56,556)	(87,477)	(67,720)
Increase (decrease) in cash and cash equivalents	12,859	(3,728)	7,290
Cash and cash equivalents at beginning of year	21,096	24,824	17,534
Cash and cash equivalents at end of year	$ 33,955	$ 21,096	$ 24,824

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There have been no changes in the Company s independent accountants and auditors for the two most recent fiscal years.

ITEM 9A. CONTROLS AND PROCEDURES.

CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

The Company, with the participation of its management, including the Company s 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 and 15d-15 under the Exchange Act) 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 were effective in ensuring that information required to be disclosed in its reports that the Company files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported on a timely basis.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, the Company has included a report of management s assessment of the design and operating effectiveness of its internal controls as part of this Report. The Company s independent registered public accounting firm reported on the effectiveness of internal control over financial reporting. Management s report and the independent registered public accounting firm s report are included with our 2008 consolidated financial statements in Item 8 of this Report under the captions entitled Management s Report on Internal Control Over Financial Reporting and Report of Independent Registered Public Accounting Firm.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company s internal control over financial reporting that occurred during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information concerning the directors and nominees of the Company appears under the caption Proposal 1: Election of Directors in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference.

EXECUTIVE OFFICERS OF REGISTRANT

Certain information regarding executive officers is included under the section captioned Executive Officers of the Registrant in Part I, Item 1, elsewhere in the Report. Other information required by this Item is incorporated herein by reference to the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders.

AUDIT COMMITTEE FINANCIAL EXPERT

Information regarding audit committee financial experts serving on the Audit Committee of the Company s Board of Directors appears under the caption Corporate Governance Committees of the Board of Directors in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference.

IDENTIFICATION OF THE AUDIT COMMITTEE

Information regarding the Audit Committee and the identification of its members appears under the caption Corporate Governance Committees of the Board of Directors in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference. In establishing the Audit Committee s compliance with Rule 10A-3 under the Exchange Act, each member of the Company s Audit Committee is relying upon the exemption provided by Rule 10A-3(b)(1)(iv)(B) of the Exchange Act because each member of the Audit Committee is also a member of the Bank s Board of Directors.

MATERIAL CHANGES TO PROCEDURES BY WHICH SECURITY HOLDERS MAY RECOMMEND NOMINEES

The Company has not made any material changes to the procedures by which its shareholders may recommend nominees to the Company s Board of Directors since the date of the Company s definitive Proxy Statement for its 2007 annual meeting of shareholders.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Information regarding the Section 16(a) beneficial ownership compliance of each of the Company s directors and executive officers or each person who owns more than 10% of the outstanding shares of the Company s common stock appears under the caption General Information Section 16(a) Beneficial Ownership Reporting Compliance in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference.

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CERTAIN CORPORATE GOVERNANCE DOCUMENTS

The Company has adopted a code of business conduct and ethics that applies to its directors, chief executive officer, chief financial officer, other officers, other financial reporting persons and employees. The Company has also adopted Corporate Governance Guidelines for its Board of Directors. These documents, as well as the charters of the Audit Committee, Executive Compensation and Stock Incentive Committee and Nominating Committee of the Board of Directors, are available on the Company s website at www.bancorpsouth.com on the Investors Relations webpage under the caption Corporate Governance, or shareholders may request a free copy of these documents from:

BancorpSouth, Inc.
Corporate Secretary
One Mississippi Plaza
201 South Spring Street
Tupelo, Mississippi 38804
(662) 680-2000

The Company intends to disclose any amendments to its code of business conduct and ethics and any waiver from a provision of the code, as required by the SEC, on the Company s website within four business days following such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION.

This information appears under the captions Executive Compensation, Compensation Discussion and Analysis, Director Compensation and Executive Compensation and Stock Incentive Committee Report in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information regarding the security ownership of certain beneficial owners and directors, nominees and executive officers of the Company appears under the caption Security Ownership of Certain Beneficial Owners and Management in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference.

Information regarding the compensation plans (including individual compensation arrangements) under which shares of our common stock are authorized for issuance appears under the caption Equity Compensation Plan Information in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information regarding certain relationships and related transactions with management and others appears under the caption Certain Relationships and Related Transactions in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference. Information regarding director independence appears under the caption Corporate Governance Director Independence in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information regarding accountant fees and services appears under the caption Proposal 2: Ratification of Selection of Auditors in the Company s definitive Proxy Statement for its 2009 annual meeting of shareholders, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Index to Consolidated Financial Statements, Financial Statement Schedules and Exhibits:

1. Consolidated Financial Statements: See Item 8. Financial Statements and Supplementary Data.

2. Consolidated Financial Statement Schedules:

   All schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

3. Exhibits:

(2) Agreement and Plan of Merger, dated as of October 31, 2006, between BancorpSouth, Inc. and City Bancorp, Inc. (1)

(3) (a) Restated Articles of Incorporation. (2)

(b) Amendment to Articles of Incorporation. (2)

(c) Amendment to Articles of Incorporation. *

(d) Bylaws, as amended and restated. (3)

(e) Amendment No. 1 to Amended and Restated Bylaws. (4)

(f) Amendment No. 2 to Amended and Restated Bylaws (5)

(g) Amendment No. 3 to Amended and Restated Bylaws (5)

(4) (a) Specimen Common Stock Certificate. (6)

(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. (7)

(c) First Amendment to Rights Agreement, dated as of March 28, 2001. (8)

(d) Amended and Restated Certificate of Trust of BancorpSouth Capital Trust I. (9)

(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. (10)

(f) Junior Subordinated Indenture, dated as of January 28, 2002, between BancorpSouth, Inc. and The Bank of New York. (10)

(g) Guarantee Agreement, dated as of January 28, 2002, between BancorpSouth, Inc. and The Bank of New York. (10)

(h) Junior Subordinated Debt Security Specimen. (10)

(i) Trust Preferred Security Certificate for BancorpSouth Capital Trust I. (10)

(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.

(10) (a) BancorpSouth, Inc. Supplemental Executive Retirement Plan, as amended and restated. *(26)

(b) 1994 Stock Incentive Plan, as amended and restated. (12)(26)

(c) BancorpSouth, Inc. Director Stock Plan, as amended and restated. (13)(26)

(d) 1995 Non-Qualified Stock Option Plan for Non-Employee Directors. (12)(26)

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(21) Subsidiaries of the Registrant.*

(23) Consent of Independent Accountants.*

(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 exhibit 2.1 to the Company s Current Report on Form 8-K filed on October 31, 2006 (file number 1-12991) and incorporated by reference thereto.

(2) Filed as exhibit 3(a) to the Company s Quarterly Report on Form 10-Q for the three months ended June 30, 2007 (file number 001-12991) 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, 1998 (file number 1-12991) and incorporated by

reference thereto.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

(9) Filed as exhibit 4.12 to the Company s registration statement on Form S-3 filed on November 2, 2001 (Registration No. 33-72712) and incorporated by reference thereto.

(10) 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.

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(11) Filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 1988 (file number 0-10826) and incorporated by reference thereto.

(12) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 1998 (file number 1-12991) and incorporated by reference thereto.

(13) Filed as an appendix to the Company s Definitive Proxy Statement on Schedule 14A filed on March 26, 2004 (file number 1-12991) and incorporated by reference thereto.

(14) Filed as exhibit 99.1 to the Company s Post-Effective Amendment No. 5 on Form S-3 to Form S-4 filed February 23, 1999 (Registration No. 333-280181) and incorporated

by reference thereto.

(15) Filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2002 (file number 1-12991) and incorporated by reference thereto.

(16) Filed in the Company s filing pursuant to Rule 424(b)(2) filed on January 5, 2004 (Registration No. 033-03009) and incorporated by reference thereto.

(17) Filed as an exhibit to the Company s registration statement on Form S-8 filed on April 19, 2006 (Registration No. 333-133390) and incorporated by reference thereto.

(18) Filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2003 (file number 1-12991) and incorporated by reference thereto.

(19) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 1999 (file number 001-12991) and incorporated by reference thereto.

(20) Filed as an exhibit to the Company s registration statement on Form S-4 filed June 14, 2000 (Registration No. 333-39326) and incorporated by reference thereto.

(21) Filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2005 (file number 1-12991) and incorporated by reference thereto.

(22) Filed as an exhibit to the Company s Quarterly Report on Form 10-Q for the three months ended March 31, 2003 (file number 001-12991) and incorporated by reference thereto.

(23)

Filed as an exhibit to the Company s registration statement on Form S-8 filed December 30, 2004 (Registration No. 333-121785) and incorporated by reference thereto.

(24) Filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 (file number 1-12991) and incorporated by reference thereto.

(25) Filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2007 (file number 1-12991) and incorporated by reference thereto.

(26) Compensatory plans or arrangements.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

DATE: February 26, 2009	By: /s/ Aubrey B. Patterson Aubrey B. Patterson Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Aubrey B. Patterson Aubrey B. Patterson	Chairman of the Board, Chief Executive Officer (Principal Executive Officer) and Director	February 26, 2009
/s/ L. Nash Allen, Jr. L. Nash Allen, Jr.	Treasurer and Chief Financial Officer (Principal Financial Officer)	February 26, 2009
/s/ Gary C. Bonds Gary C. Bonds	Senior Vice President and Principal Accounting Officer	February 26, 2009
/s/ James E. Campbell III James E. Campbell III	Director	February 26, 2009
/s/ Hassell H. Franklin Hassell H. Franklin	Director	February 26, 2009
/s/ W. G. Holliman, Jr. W. G. Holliman, Jr.	Director	February 26, 2009
/s/ James V. Kelley James V. Kelley	President, Chief Operating Officer and Director	February 26, 2009
/s/ Larry G. Kirk Larry G. Kirk	Director	February 26, 2009
/s/ Turner O. Lashlee Turner O. Lashlee	Director	February 26, 2009

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/s/ Guy W. Mitchell	Director	February 26, 2009
Guy W. Mitchell, III		
/s/ R. Madison Murphy	Director	February 26, 2009
R. Madison Murphy		
/s/ Robert C. Nolan	Director	February 26, 2009
Robert C. Nolan		
/s/ W. Cal Partee, Jr.	Director	February 26, 2009
W. Cal Partee, Jr.		
/s/ Alan W. Perry	Director	February 26, 2009
Alan W. Perry		

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INDEX TO EXHIBITS

Exhibit No.		Description
(2)		Agreement and Plan of Merger, dated as of October 31, 2006, between BancorpSouth, Inc. and City Bancorp, Inc. (1)
(3)	(a)	Restated Articles of Incorporation. (2)
	(b)	Amendment to Articles of Incorporation. (2)
	(c)	Amendment to Articles of Incorporation. *
	(d)	Bylaws, as amended and restated. (3)
	(e)	Amendment No. 1 to Amended and Restated Bylaws. (4)
	(f)	Amendment No. 2 to Amended and Restated Bylaws (5)
	(g)	Amendment No. 3 to Amended and Restated Bylaws (5)
(4)	(a)	Specimen Common Stock Certificate. (6)
	(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. (7)
	(c)	First Amendment to Rights Agreement, dated as of March 28, 2001. (8)
	(d)	Amended and Restated Certificate of Trust of BancorpSouth Capital Trust I. (9)
	(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. (10)
	(f)	Junior Subordinated Indenture, dated as of January 28, 2002, between BancorpSouth, Inc. and The Bank of New York. (10)
	(g)	Guarantee Agreement, dated as of January 28, 2002, between BancorpSouth, Inc. and The Bank of New York. (10)
	(h)	Junior Subordinated Debt Security Specimen. (10)
	(i)	Trust Preferred Security Certificate for BancorpSouth Capital Trust I. (10)
	(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.
(10)	(a)	BancorpSouth, Inc. Supplemental Executive Retirement Plan, as amended and restated. *(26)

(b) 1994 Stock Incentive Plan, as amended and restated. (12)(26)

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