WILLIAMS SONOMA INC
Form DEF 14A
April 08, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x   Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

Williams-Sonoma, Inc.

(Name of Registrant as Specified In Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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¨ Fee paid previously with preliminary materials.

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

3250 Van Ness Avenue

San Francisco, California 94109

www.williams-sonomainc.com

NOTICE OF 2010 ANNUAL MEETING OF SHAREHOLDERS

MEETING DATE:	May 26, 2010
TIME:	9:00 a.m. Pacific Time
PLACE:	Williams-Sonoma, Inc. 3250 Van Ness Avenue San Francisco, California 94109
ITEMS OF BUSINESS:	1) The election of our Board of Directors; 2) The amendment and restatement of the Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan to increase the shares issuable under the plan by 2,500,000 shares, extend the term of the plan to 2020, and to approve the material terms of the plan so that we may continue to receive a federal income tax deduction for certain compensation paid under the 2001 Long-Term Incentive Plan; 3) The amendment and restatement of the Williams-Sonoma, Inc. 2001 Incentive Bonus Plan to extend its term for an additional five years and to approve the material terms of the plan so that we may continue to use the plan to achieve the company s goals and continue to receive a federal income tax deduction for certain compensation paid under the 2001 Incentive Bonus Plan; 4) The ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 30, 2011; and 5) Such other business as may properly come before the meeting or any adjournment or postponement of the meeting.
WHO CAN VOTE:	You may vote if you were a shareholder of record as of March 29, 2010.
DATE OF MAILING:	The Notice of Internet Availability of Proxy Materials or this notice, the Proxy Statement and the Annual Report are first being mailed to shareholders and posted on our website on or about April 8, 2010.

By Order of the Board of Directors

Seth R. Jaffe

Secretary

YOUR VOTE IS IMPORTANT

Instructions for submitting your proxy are summarized in the Notice of Internet Availability of Proxy Materials, the Proxy Statement and on your proxy card. It is important that your shares be represented and voted at the Annual Meeting. Please submit your proxy through the Internet, by telephone, or mark, sign, date and promptly return the enclosed proxy card in the enclosed envelope. You may revoke your proxy at any time prior to its exercise at the Annual Meeting.

3250 Van Ness Avenue

San Francisco, California 94109

www.williams-sonomainc.com

PROXY STATEMENT FOR THE 2010 ANNUAL MEETING OF SHAREHOLDERS

GENERAL INFORMATION

Our Board of Directors is soliciting your proxy to vote your shares at our 2010 Annual Meeting of Shareholders, to be held on Wednesday, May 26, 2010 at 9:00 a.m. Pacific Time, and for any adjournment or postponement of the meeting. Our Annual Meeting will be held at our corporate headquarters located at 3250 Van Ness Avenue, San Francisco, California 94109. Our Annual Report to Shareholders for the fiscal year ended January 31, 2010, or fiscal 2009, including our financial statements for fiscal 2009, is also included with hard copies of this Proxy Statement and posted on our website at www.williams-sonomainc.com/investors/annual-reports.html. These proxy materials are first being made available to shareholders and posted on our website on or about April 8, 2010.

What is the purpose of the Annual Meeting?

Shareholders will be asked to vote on the following matters:

1) The election of our Board of Directors;

2) The amendment and restatement of the Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan to increase the shares issuable under the plan by 2,500,000 shares, extend the term of the plan to 2020, and to approve the material terms of the plan so that we may continue to receive a federal income tax deduction for certain compensation paid under the 2001 Long-Term Incentive Plan;

3) The amendment and restatement of the Williams-Sonoma, Inc. 2001 Incentive Bonus Plan to extend its term for an additional five years and to approve the material terms of the plan so that we may continue to use the plan to achieve the company s goals and continue to receive a federal income tax deduction for certain compensation paid under the 2001 Incentive Bonus Plan;

4) The ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 30, 2011; and

5) Such other business as may properly come before the meeting or any adjournment or postponement of the meeting, including shareholder proposals. At this time, we do not know of any other matters to be brought before the Annual Meeting.

What is the Notice of Internet Availability of Proxy Materials?

In accordance with rules and regulations adopted by the U.S. Securities and Exchange Commission, or the SEC, instead of mailing a printed copy of our proxy materials to all shareholders entitled to vote at the Annual Meeting, we are furnishing the proxy materials to certain of our shareholders over the Internet. If you received a Notice of Internet Availability of Proxy Materials, or the Notice, by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will instruct you as to how you may access and review the proxy materials and submit your vote via the Internet. If you received a Notice by mail and would like to receive a printed copy of the proxy materials, please follow the instructions for requesting such materials included in the Notice.

You may also choose to receive future proxy materials by e-mail by following the instructions provided on the website referred to in the Notice. Choosing to receive your future proxy materials by e-mail will save us the cost of printing and mailing documents to you and will reduce the impact of our Annual Meeting on the environment.

If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

On the date of mailing of the Notice, all shareholders will have the ability to access all of our proxy materials on a website referred to in the Notice. These proxy materials will be available free of charge.

Who may vote?

Only shareholders of record at the close of business on March 29, 2010, the record date, are entitled to receive notice of and to vote at the Annual Meeting. Each holder of our common stock will be entitled to one vote for each share of our common stock owned as of the record date. As of the record date, there were 107,452,150 shares of our common stock outstanding and entitled to vote, and there were 455 shareholders of record, which number does not include beneficial owners of shares held in the name of a bank or brokerage firm. We do not have any outstanding shares of preferred stock.

How do I vote?

You may vote in person at the Annual Meeting, electronically by submitting your proxy through the Internet, by telephone or by returning a hard copy of the proxy card before the Annual Meeting. Proxies properly executed, returned to us on a timely basis and not revoked will be voted in accordance with the instructions contained in the proxy. If any matter not described in this Proxy Statement is properly presented for action at the meeting, the persons named in the enclosed proxy will have discretionary authority to vote according to their best judgment.

How do I vote electronically or by telephone?

You may vote by submitting your proxy through the Internet or by telephone. The Internet and telephone voting procedures are designed to authenticate your identity as a Williams-Sonoma, Inc. shareholder, to allow you to vote your shares and to confirm that your instructions have been properly recorded. Specific instructions to be followed for voting through the Internet or by telephone are summarized below in this Proxy Statement, in the Notice and on the proxy card.

Shares Registered Directly in the Name of the Shareholder

If your shares are registered directly in your name in our stock records maintained by our transfer agent, Wells Fargo Shareowner Services, then you may vote your shares:

- on the Internet at www.eproxy.com/wsm; or
- by calling Wells Fargo Shareowner Services from within the United States at 800-560-1965.

Proxies for shares registered directly in your name that are submitted through the Internet or by telephone must be received before noon Pacific Time on Tuesday, May 25, 2010.

Shares Registered in the Name of a Brokerage Firm or Bank

If your shares are held in an account at a brokerage firm or bank, you should follow the voting instructions on the Notice or the proxy card.

What if I return my proxy card directly to the company, but do not provide voting instructions?

If a signed proxy card is returned to us without any indication of how your shares should be voted, votes will be cast FOR the election of the directors named in this Proxy Statement, FOR the described amendment and restatement of our 2001 Long-Term Incentive Plan, FOR the described amendment and restatement of our 2001 Incentive Bonus Plan, and FOR the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 30, 2011.

What are the directions to attend the Annual Meeting and vote in person?

The following are directions to attend the Annual Meeting from various locations around the San Francisco Bay Area:

From the South Bay

Take US-101 Northbound toward San Francisco

Take the US-101 exit on the left

Keep left at the fork to continue on US-101 North

Take exit 434A to merge onto Mission Street/US-101

Turn left at US-101/South Van Ness Avenue

Continue North on Van Ness Avenue

Destination will be on the right

From the East Bay

Take I-80 Westbound across the Bay Bridge toward San Francisco

Take exit 1B to merge onto US-101 North

Take exit 434A to merge onto Mission Street/US-101

Turn left at US-101/South Van Ness Avenue

Continue North on Van Ness Avenue

Destination will be on the right

From the North Bay

Take US-101 Southbound across the Golden Gate Bridge toward San Francisco

Exit onto Richardson Avenue/US-101 toward Lombard Street

Continue to follow US-101

Turn left at US-101/Van Ness Avenue

Continue North on Van Ness Avenue

Destination will be on the right

How many shares must be present to hold the Annual Meeting?

Shareholders holding a majority of our outstanding shares as of the record date must be present in person or by proxy at the Annual Meeting so that we may transact business. This is known as a quorum. Shares that are voted in person or through the Internet, telephone or signed proxy card, and abstentions and broker non-votes, will be included in the calculation of the number of shares considered to be present for purposes of determining whether there is a quorum at the Annual Meeting.

What is a broker non-vote?

The term broker non-vote refers to shares that are held of record by a broker for the benefit of the broker s clients but that are not voted at the Annual Meeting on certain non-routine matters set forth in New York Stock Exchange, or NYSE, Rule 402.08(B) because a broker did not receive instructions from the broker s clients on how to vote the shares and, therefore, was prohibited from voting the shares.

What is cumulative voting and when does it occur?

Cumulative voting is a system of shareholder voting to elect directors that allows a shareholder to cast all of the shareholder s votes for a single director or multiple directors. If a shareholder requests that cumulative voting take place, then every shareholder entitled to vote may cumulate votes for director nominees, and you will be entitled to cast as many votes as are equal to the number of shares owned by you as of the record date multiplied by the number of directors to be elected. To engage in cumulative voting, a shareholder entitled to vote at the

Annual Meeting must give notice of the shareholder s intention to cumulate votes before voting begins. If that occurs, you may cumulate votes only with respect to the election of director nominees whose names were placed in nomination prior to the voting for directors. Cumulative votes may be cast for one director nominee or distributed among two or more director nominees. For example, if you owned 100 shares of our common stock as of the record date and ten directors were being elected, you would have 1,000 votes (100 shares multiplied by ten directors) to cast for one or more of the director nominees at the Annual Meeting.

A director elected by cumulative voting can only be removed without cause by the same cumulative voting standards.

As of the date of this Proxy Statement, we have not received notice that any shareholder has requested the ability to cumulate votes for directors.

How many votes are needed to elect directors?

The ten director nominees receiving the highest number of votes at the Annual Meeting will be elected as directors. This is called a plurality. Your proxy will be voted in accordance with your instructions. If no instructions are given, the proxy holders will vote FOR each of the director nominees. If you hold your shares through a brokerage, bank or other nominee, or in street name, it is important to cast your vote if you want it to count in the election of directors. In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of directors, your bank or broker was allowed to vote those shares on your behalf in the election of directors if they felt appropriate. Recent changes in regulations were made to take away the ability of your bank or broker to vote your uninstructed shares in the election of directors on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote your shares in the election of directors, no votes will be cast on your behalf. Since directors are elected by a plurality, broker non-votes and abstentions will have no effect on the outcome of the election.

How many votes are needed to approve Proposals 2, 3 and 4?

Proposal 2, the amendment and restatement of our 2001 Long-Term Incentive Plan, requires the affirmative vote of a majority of the shares represented and voting at the Annual Meeting and a majority of the quorum required to transact business at the Annual Meeting. Proxy cards marked abstain and broker non-votes will have the effect of a NO vote on Proposal 2 if the number of affirmative votes cast for the proposal is a majority of the votes cast but does not constitute a majority of the quorum required to transact business at the Annual Meeting.

Proposal 3, the amendment and restatement of our 2001 Incentive Bonus Plan, requires the affirmative vote of a majority of the shares represented and voting at the Annual Meeting and a majority of the quorum required to transact business at the Annual Meeting. Proxy cards marked abstain and broker non-votes will have the effect of a NO vote on Proposal 3 if the number of affirmative votes cast for the proposal is a majority of the votes cast but does not constitute a majority of the quorum required to transact business at the Annual Meeting.

Proposal 4, the ratification of the selection of our independent registered public accounting firm, requires the affirmative vote of a majority of the shares represented and voting at the Annual Meeting and a majority of the quorum required to transact business at the Annual Meeting. Proxy cards marked abstain and broker non-votes will have the effect of a NO vote on Proposal 4 if the number of affirmative votes cast for the proposal is a majority of the votes cast but does not constitute a majority of the quorum required to transact business at the Annual Meeting.

Are there any shareholder proposals this year?

No, we did not receive notice before December 10, 2009 of any shareholder proposals requesting inclusion in our Proxy Statement for our 2010 Annual Meeting or of any shareholder proposals to be raised at this year s Annual Meeting.

What if I want to change my vote(s)?

You may revoke your proxy prior to the close of voting at the Annual Meeting by any of the following methods:

- sending written notice of revocation to our Secretary;
- sending a signed proxy card bearing a later date to our Secretary; or
- attending the Annual Meeting, revoking your proxy and voting in person.

What is householding?

Householding is a cost-cutting procedure used by us and approved by the SEC. Under the householding procedure, we send only one Notice or Annual Report and Proxy Statement to shareholders of record who share the same address and last name, unless one of those shareholders notifies us that the shareholder would like a separate Notice or Annual Report and Proxy Statement. A shareholder may notify us that the shareholder would like a separate Notice or Annual Report and Proxy Statement by phone at 415-421-7900 or at the following mailing address: Williams-Sonoma, Inc., Attention: Annual Report Administrator, 3250 Van Ness Avenue, San Francisco, California 94109. If we receive such notification that the shareholder wishes to receive a separate Notice or Annual Report and Proxy Statement, we will promptly deliver such Notice or Annual Report and Proxy Statement. A separate proxy card is included in the materials for each shareholder of record. If you wish to update your participation in householding, you may contact your broker or our mailing agent, Broadridge Investor Communications Solutions, at 800-542-1061.

What if I received more than one proxy card?

If you received more than one proxy card, it means that you have multiple accounts with brokers and/or our transfer agent. You must complete each proxy card in order to vote all of your shares. If you are interested in consolidating your accounts, you may contact your broker or our transfer agent, Wells Fargo Shareowner Services, at 800-468-9716.

Who pays the expenses incurred in connection with the solicitation of proxies?

We pay all of the expenses incurred in preparing, assembling and mailing the Notice or this Proxy Statement and the materials enclosed. We have retained Skinner & Company to assist in the solicitation of proxies at an estimated cost to us of $3,500. Some of our officers or employees may solicit proxies personally or by telephone or other means. None of those officers or employees will receive special compensation for such services.

PROPOSAL 1

ELECTION OF DIRECTORS

What is this proposal?

This is a proposal to elect our Board of Directors.

How many members are on our Board?

We currently have nine directors. Assuming each director nominee is elected, after the 2010 Annual Meeting, we will have ten directors.

Has the Board determined which directors are independent?

The Board has determined that Adrian D.P. Bellamy, Adrian T. Dillon, Anthony A. Greener, Ted W. Hall, Michael R. Lynch, Richard T. Robertson and David B. Zenoff meet the independence requirements of our Policy Regarding Director Independence, which is part of our Corporate Governance Guidelines. Our Corporate Governance Guidelines are posted on our website at www.williams-sonomainc.com. Accordingly, the Board has determined that none of these director nominees has a material relationship with us and that these nominees are independent within the meaning of the NYSE and SEC director independence standards, as currently in effect. Further, our Board committees satisfy the independence requirements of the NYSE and SEC. The Board s independence determination was based on information provided by our director nominees and discussions among our officers and directors.

How often did our Board meet in fiscal 2009?

During fiscal 2009, our Board held a total of nine meetings. Each director who was a member of our Board during fiscal 2009 attended at least 75% of the aggregate of (i) the total number of meetings of the Board held during the period for which such director has been a director and (ii) the total number of meetings held by all committees of the Board on which such director served during the periods that such director served.

What is our policy for director attendance at the Annual Meeting?

Our policy is that directors who are up for election at our Annual Meeting should attend the Annual Meeting. Each incumbent director who was a member of our Board at the time of our 2009 Annual Meeting attended the meeting.

How can shareholders and interested parties communicate with members of the Board?

Shareholders and all other interested parties may send written communications to the Board or to any of our directors individually, including non-management directors and the Lead Independent Director, at the following address: Williams-Sonoma, Inc., Attention: Secretary, 3250 Van Ness Avenue, San Francisco, California 94109. All communications will be compiled by our Secretary and submitted to the Board or an individual director, as appropriate, on a periodic basis.

What will happen if a nominee is unwilling or unable to serve prior to the Annual Meeting?

Our Board has no reason to believe that any of the nominees will be unwilling or unable to serve as a director. However, should a nominee become unwilling or unable to serve prior to the Annual Meeting, our Nominations and Corporate Governance Committee would recommend another person or persons to be nominated by our Board to stand for election, and your proxies would be voted for the person or persons selected by the committee and nominated by our Board.

How are the directors compensated?

Directors do not presently receive any cash compensation for their service on our Board or Board committees. As their exclusive compensation relating to Board and Board committee service, non-employee directors are awarded equity grants. During fiscal 2009, these equity grants were made in the form of restricted stock units. Directors receive dividend equivalent payments with respect to outstanding restricted stock unit awards. These restricted stock units vest on the earlier of one year from the date of grant or the day before the next regularly scheduled annual meeting. The number of restricted stock units granted will be determined by dividing the total monetary value of each award, as identified in the following table, by the closing price of our common stock on the trading day prior to the grant date, rounding down to the nearest whole share:

	Value of Restricted Stock Unit Awards
Initial Election to the Board	$ 184,000
Annual Grant for Board Service(1)	$ 170,000
Annual Grant for Service as Lead Independent Director(1)	$ 25,000
Annual Grant to Chairperson of the Audit and Finance Committee(1)	$ 41,000
Annual Grant to Chairperson of the Compensation Committee(1)	$ 16,500
Annual Grant to Chairperson of the Nominations and Corporate Governance Committee(1)	$ 16,500

(1) Awarded on the date of the Annual Meeting so long as the non-employee director has been serving on the Board for at least three months.

In addition to the equity awards described above, we reimburse travel expenses related to attending our Board, committee or business meetings and offer discounts on our merchandise to all non-employee directors and their spouses.

We have approved a share ownership policy for non-employee directors. Each non-employee director must hold, by the later of the 2012 Annual Meeting or the fifth anniversary of such director s initial election to the Board, 20,000 shares of the company s common stock. The share ownership requirement may be filled by shares held outright by the director (or immediate family member in the household), shares held in trust for the benefit of the director (or immediate family member in the household), or restricted stock units held by the director.

Non-Employee Director Compensation During Fiscal 2009

The following table shows the compensation provided to our non-employee directors during fiscal 2009:

	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)	Non-Stock Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)(2)(3)	Total ($)
Adrian D.P. Bellamy		$211,490(4)				$25,706(5)(6)	$ 237,196
Adrian T. Dillon		$210,991(7)				$ 9,036(8)(9)	$ 220,027
Anthony A. Greener		$169,997(10)				$ 5,536(11)(12)	$ 175,533
Ted W. Hall		$169,997(13)				$10,099(14)(15)	$ 180,096

Michael R. Lynch	$186,493(16)	$ 9,307(17)(18)	$ 195,800
Richard T. Robertson	$169,997(19)	$10,238(20)(21)	$ 180,235
David B. Zenoff	$169,997(22)	$10,232(23)(24)	$ 180,229

(1) Based on the fair market value of the award granted in fiscal 2009, which is calculated by multiplying the closing price of our stock on the trading day prior to the grant date by the number of units granted. The number of restricted stock units granted is determined by dividing the total monetary value of each award, as identified in the preceding table, by the closing price of our common stock on the trading day prior to the grant date, rounding down to the nearest whole share.

(2) Includes taxable value of discount on merchandise.

(3) Includes dividend equivalent payments made with respect to outstanding stock unit awards.

(4) Represents the sum of (i) fair market value associated with a restricted stock unit award of 16,359 shares of common stock made on May 22, 2009, with a fair value as of the grant date of $11.40 per share for an aggregate grant date fair value of $186,493 and (ii) fair market value associated with a restricted stock unit award of 1,306 shares of common stock made on September 9, 2009, with a fair value as of the grant date of $19.14 per share for an aggregate grant date fair value of $24,997.

(5) Includes taxable value of discount on merchandise of $17,696.

(6) Includes dividend equivalent payments made with respect to outstanding stock unit award of $8,010.

(7) Represents the fair market value associated with a restricted stock unit award of 18,508 shares of common stock made on May 22, 2009, with a fair value as of the grant date of $11.40 per share for an aggregate grant date fair value of $210,991.

(8) Includes taxable value of discount on merchandise of $2,284.

(9) Includes dividend equivalent payments made with respect to an outstanding restricted stock unit award of $6,752.

(10) Represents the fair market value associated with a restricted stock unit award of 14,912 shares of common stock made on May 22, 2009, with a fair value as of the grant date of $11.40 per share for an aggregate grant date fair value of $169,997.

(11) Includes taxable value of discount on merchandise of $96.

(12) Includes dividend equivalent payments made with respect to an outstanding restricted stock unit award of $5,440.

(13) Represents the fair market value associated with a restricted stock unit award of 14,912 shares of common stock made on May 22, 2009, with a fair value as of the grant date of $11.40 per share for an aggregate grant date fair value of $169,997.

(14) Includes taxable value of discount on merchandise of $4,659.

(15) Includes dividend equivalent payments made with respect to an outstanding restricted stock unit award of $5,440.

(16) Represents the fair market value associated with a restricted stock unit award of 16,359 shares of common stock made on May 22, 2009, with a fair value as of the grant date of $11.40 per share for an aggregate grant date fair value of $186,493.

(17) Includes taxable value of discount on merchandise of $1,297.

(18) Includes dividend equivalent payments made with respect to an outstanding restricted stock unit award of $8,010.

(19)

Represents the fair market value associated with a restricted stock unit award of 14,912 shares of common stock made on May 22, 2009, with a fair value as of the grant date of $11.40 per share for an aggregate grant date fair value of $169,997.

(20) Includes taxable value of discount on merchandise of $4,798.

(21) Includes dividend equivalent payments made with respect to an outstanding restricted stock unit award of $5,440.

(22) Represents the fair market value associated with a restricted stock unit award of 14,912 shares of common stock made on May 22, 2009, with a fair value as of the grant date of $11.40 per share for an aggregate grant date fair value of $169,997.

(23) Includes taxable value of discount on merchandise of $2,931.

(24) Includes dividend equivalent payments made with respect to an outstanding restricted stock unit award of $7,301.

What is our Board leadership structure?

Currently, our Chief Executive Officer, W. Howard Lester, also serves as our Chairman of the Board. We believe that our current corporate governance structure, with its strong emphasis on Board independence, provides effective independent oversight of management, while allowing both the Board and management to benefit from Mr. Lester s over 30 years of experience with the company. As both Chief Executive Officer and Chairman of the Board, Mr. Lester has contributed his insight and experience to the day-to-day leadership of the company, while simultaneously leading the Board to provide knowledgeable advice to the company and our management team. With Mr. Lester as Chairman, the Board has continued to maintain its high standards of independence. Seven of the Board s nine directors are independent under NYSE rules and our own director independence standards. In addition, every member of each of the Board s three committees is independent. Board members have complete access to management and outside advisors, and the Board and each Board committee meet regularly in executive session without management. We also have a Lead Independent Director. See the section below titled Do we have a Lead Independent Director? for further information regarding that role.

Following Mr. Lester s retirement effective as of May 26, 2010, the date of the 2010 Annual Meeting, the Board intends to appoint Laura Alber to the role of Chief Executive Officer. The Board also intends to appoint Adrian Bellamy, who currently serves as the Board s Lead Independent Director, as the Chairman. Upon his appointment to that position, Mr. Bellamy will no longer serve as the Lead Independent Director, as discussed below. With the retirement of Mr. Lester, we believe that the company is well positioned to transition to a leadership structure with separate Chief Executive Officer and Chairman roles. This new leadership structure will maximize the Board s independence and align our leadership structure with current trends in corporate governance best practices. The Chief Executive Officer will continue to be responsible for day-to-day leadership and for setting the strategic direction of the company, while the Chairman will provide independent oversight and advice to our management team. The Chairman will continue to preside over Board meetings.

Do we have a Lead Independent Director?

Yes. On February 23, 2009, the Board adopted a Lead Independent Director charter, and on March 20, 2009, the independent directors appointed Adrian Bellamy to serve as our Lead Independent Director. The Lead Independent Director s responsibilities include presiding over all meetings of the Board at which the Chairman is not present, including executive sessions of independent directors, leading the Board s succession planning process for our Chief Executive Officer, calling meetings of the independent directors when necessary, serving as the principal liaison between the non-employee directors and the Chairman on sensitive issues, and serving as a liaison for consultation and communication with shareholders, as needed.

Mr. Bellamy will serve in this capacity until May 26, 2010, the date of the 2010 Annual Meeting. At that time, following the retirement of W. Howard Lester, who currently serves as both Chief Executive Officer and Chairman of the Board, the Board intends to appoint Adrian Bellamy as the Chairman of the Board.

What is the Board s role in overseeing the risk management of the company?

The Board actively manages the company s risk oversight process and receives regular reports from management on areas of material risk to the company, including operational, financial, legal and regulatory risks. Our Board committees assist the Board in fulfilling its oversight responsibilities in certain areas of risk. The Audit and Finance Committee assists the Board with its oversight of the company s major financial risk exposures. Additionally, in accordance with NYSE requirements, the Audit and Finance Committee reviews with management the company s major financial risk exposures and the steps management has taken to monitor and control such exposures, including the company s risk assessment and risk management policies. The Compensation Committee assists the Board with its oversight of risks arising from our compensation policies and programs. The Nominations and Corporate Governance Committee assists the Board with its oversight of risks associated with Board organization, Board independence, succession planning, and corporate governance. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is regularly informed through committee reports about such risks.

Does the Board hold executive sessions?

It is the Board s policy to have a separate meeting time for independent directors, typically during the regularly scheduled Board meetings. During fiscal 2009, executive sessions were led by our Lead Independent Director, Mr. Bellamy.

Are there any family or other special relationships among the director nominees and our executive officers?

No. There are no family or special relationships between any director nominee or executive officer and any other director nominee or executive officer. There are no arrangements or understandings between any director nominee or executive officer and any other person pursuant to which he or she has been or will be selected as our director and/or executive officer.

Were any incumbent directors not elected at the 2009 Annual Meeting?

No. All of the incumbent directors were elected at the 2009 Annual Meeting.

Are any incumbent directors not standing for re-election at the 2010 Annual Meeting?

Yes. W. Howard Lester, currently our Chairman and Chief Executive Officer, will not be standing for re-election at the 2010 Annual Meeting.

Mr. Lester has been with the company since 1978. Under Mr. Lester s leadership, the company has grown from one brand with four stores and $4,000,000 in annual revenues to a nationwide specialty retailer comprised of six distinct merchandise brands with over 600 stores, seven direct mail catalogs and six e-commerce websites. Mr. Lester has used his leadership and interpersonal skills and industry contacts for the benefit of the company and has been instrumental in our growth and development. Although Mr. Lester is not up for re-election, the Board believes his insight into the retail industry and his extensive knowledge gained from leading the company as Chief Executive Officer have been valuable assets to the Board. Following his retirement, Mr. Lester will have the title of Chairman Emeritus.

Information Regarding the Director Nominees

The following table sets forth information, as of March 29, 2010, with respect to each director nominee. We have also included information about each nominee s specific experience, qualifications, attributes and skills that led the Board to conclude that he or she should serve as a director of the company, in light of our business and structure, at the time we file this Proxy Statement. Each director nominee furnished the biographical information set forth in the table.

Executive Officers:

Nominee	Director Since	Position with the Company and Recent Business Experience, including Directorships Held During Past Five Years	Specific Experience, Qualifications, Attributes and Skills
Laura J. Alber Age 41		President since 2006 President, Pottery Barn Brands, 2002 2006 Executive Vice President, Pottery Barn, 2000 2002 Senior Vice President, Pottery Barn Catalog and Pottery Barn Kids Retail, 1999 2000	Extensive retail industry, merchandising and operational experience, including 15 years of experience with the company Implemented successful growth strategies, including Pottery Barn Kids, Pottery Barn Bed + Bath and PBteen, as well as the company s international expansion
Patrick J. Connolly Age 63	1983	Executive Vice President, Chief Marketing Officer since 2000 Executive Vice President, General Manager, Catalog, 1995 2000 Director, CafePress.com since 2007	Extensive marketing experience, including 31 years of experience with the company Directed the company s direct-to-customer strategy, including the growth of its catalog business and the development and expansion of its e-commerce channel
Sharon L. McCollam Age 47		Executive Vice President, Chief Operating and Chief Financial Officer since 2006 Executive Vice President, Chief Financial Officer, 2003 2006 Senior Vice President, Chief Financial Officer, 2000 2003 Vice President, Finance, 2000 Chief Financial Officer of Dole Fresh Vegetables, Inc. (food products), 1996 2000 Director, Del Monte Foods Company (food products) since 2007	Extensive financial, accounting, operational and investor relations experience, including 10 years of experience with the company Implemented successful major initiatives in the company s finance, accounting, information technology, corporate procurement and facilities departments

Independent Directors:

Nominee	Director Since	Position with the Company and Recent Business Experience, including Directorships Held During Past Five Years	Specific Experience, Qualifications, Attributes and Skills
Adrian D.P. Bellamy Age 68	1997	Lead Independent Director Chairman of the Compensation Committee and member of the Nominations and Corporate Governance Committee Chairman and Director of Reckitt Benckiser plc (household, personal, health and food products) since 2003 Director, The Gap, Inc. (clothing) since 1995 Director, Labelux Group GmbH (luxury goods) since 2009 Chairman and Director of The Body Shop International plc (personal care products), 2002 2008 Chairman of Supervisory Board, Gucci Group NV (clothing), 1995 2004	Extensive experience as both an executive and director in the retail industry, including 12 years as Chairman and Chief Executive Officer of DFS Group Ltd. Broad perspective of the retail industry from current and past positions on the Boards of other retailers including The Gap, The Body Shop and Gucci
Adrian T. Dillon Age 56	2005	Chairman of the Audit and Finance Committee Chief Financial and Administrative Officer, Skype Limited (video and voice communications software) since 2010 Executive Vice President, Finance and Administration, and Chief Financial Officer, Agilent Technologies, Inc. (technology testing and analysis solutions), 2001 2010 Chief Financial Officer, Eaton Corporation (diversified power management), 1997 2001	Extensive financial and accounting expertise as chief financial officer of two large public companies Deep understanding of accounting principles and financial reporting rules and regulations, including how internal controls are effectively managed within organizations

Nominee	Director Since	Position with the Company and Recent Business Experience, including Directorships Held During Past Five Years	Specific Experience, Qualifications, Attributes and Skills
Anthony A. Greener Age 69	2007	Member of the Compensation Committee and the Nominations and Corporate Governance Committee Chairman, The Minton Trust (charity) since 2006 Director, WNS (Holdings) Limited (outsourcing services) since 2007 Chairman, Qualifications and Curriculum Authority (education), 2002 2008 Deputy Chairman, British Telecommunications plc (telecommunications), 2000 2006	

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Net income	$	90,183	114,697	$	0.79	$	30,454	114,892	$	0.27
Effect of dilutive securities										
Options			637					803		
Convertible debentures		136	552				39	504		
Diluted EPS	$	90,319	115,886	$	0.78	$	30,493	116,199	$	0.26

NOTE F: SEGMENT INFORMATION

Through its wholly owned subsidiary, Colonial Bank, BancGroup has one distinct line of business, Commercial Banking. Colonial Bank provides general banking services in 267 branches throughout 6 states.

NOTE G: LONG TERM BORROWINGS

During March 2002, BancGroup issued $100 million in Trust Preferred Securities through a statutory business trust. These securities bear interest of 8.32% and are subject to redemption by BancGroup, in whole or in part, at any time after

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March 2007, until maturity in April 2032. In connection with this issuance, BancGroup executed an interest rate swap whereby BancGroup receives a fixed rate and pays a floating rate, effectively converting the fixed rate notes to floating. The result of this interest rate swap created an effective floating rate on the notes of 3 month LIBOR + 1.40%. As of September 30, 2002, the net effective floating rate was 3.26%. The proceeds from this issuance are being used for general corporate purposes as well as a previously announced stock repurchase program.

NOTE H: DERIVATIVES:

BancGroup maintains positions in derivative financial instruments to manage interest rate risk and facilitate asset/liability management strategies. Currently, the only derivative instruments being utilized are interest rate swaps, all of which qualify for shortcut accounting, according to Statement of Financial Accounting Standards No. 133, and are designated as fair value hedges.

The aforementioned interest rate swaps were executed in order to convert fixed rate subordinated debt, trust-preferred debt and certain fixed rate loans to floating rates. Because each swap meets all of the requirements for shortcut accounting, BancGroup assumes no ineffectiveness. Therefore, no gains or losses were recognized in 2002 as the gain/(loss) on the underlying asset was offset by an equal amount related to the market value of the associated swap.

NOTE I: INTANGIBLE ASSETS

Under SFAS No. 142 goodwill and other intangible assets with indefinite useful lives will no longer be amortized, but instead are tested for impairment as of the date of adoption and at least annually. The standard also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed for impairment if a triggering event occurs, as described by SFAS No. 121.

Amortizable intangible assets at September 30, 2002 are as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposits and other intangibles	$ 35,590	$ (2,490)	$ 33,100

Aggregate amortization expense for the nine months ended September 30, 2002 was $1,767,000. Aggregate annual amortization expense of currently recorded core deposits and other intangibles for December 31, 2002 is estimated to be $2.8 million and $4.4 million for years ended December 31, 2003 through 2006.

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The changes in the carrying amount of goodwill for the nine months ended September 30, 2002 are as follows (in thousands):

Balance at January 1, 2002	$ 112,704
Acquisitions (primarily related to First Mercantile and Palm Beach, see note C)	114,037
Balance at September 30, 2002	$ 226,741

The following table presents net income and earnings per share as reported and adjusted to exclude tax effected amortization of goodwill that is no longer being amortized (in thousands, except per share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	**2001**	**2002**	**2001**
Reported net income	$ 35,130	$ 30,454	$ 105,364	$ 90,183
Goodwill amortization, net of tax		$ 1,327		$ 4,294
Adjusted net income	$ 35,130	$ 31,781	$ 105,364	$ 94,477
Reported basic earnings per share	$ 0.29	$ 0.27	$ 0.89	$ 0.79
Goodwill amortization, net of tax		$ 0.01		$ 0.04
Adjusted basic earnings per share	$ 0.29	$ 0.28	$ 0.89	$ 0.83
Reported diluted earnings per share	$ 0.29	$ 0.26	$ 0.88	$ 0.78
Goodwill amortization, net of tax		$ 0.01		$ 0.04
Adjusted diluted earnings per share	$ 0.29	$ 0.27	$ 0.88	$ 0.82

NOTE J: DISCONTINUED OPERATIONS

In July 2000 BancGroup announced definitive plans to exit the mortgage servicing business and discontinue operations of mortgage servicing as a separate business unit. As of December 31, 2000 all loan servicing transfers were completed and the mortgage servicing rights removed from the Company s balance sheet. Due to the volume of loans transferred and the costs and complexity in providing certain documentation, the Company revised its estimate of the cost to complete disposition of this business, resulting in charges of $705,000 and $613,000, net of tax expense, in the third quarters of 2002 and 2001, respectively. Currently, substantially all receivables associated with these sales have been collected and provision has been made for the Company s best estimate of any costs associated with documentation deficiencies and related indemnifications.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES:

Accounting policies involving significant estimates and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact comprehensive income, are considered critical accounting policies. BancGroup recognizes the following as critical accounting policies: Accounting for Acquisitions, Accounting for Allowance for Loan Losses, and Accounting for Income Taxes.

Accounting for Acquisitions. BancGroup s growth in business, profitability and market share over the past several years has been enhanced significantly by mergers and acquisitions. BancGroup s acquisition strategy has historically utilized the pooling-of-interest and purchase business combination methods of accounting. Effective July 1, 2001, BancGroup adopted SFAS No. 141, Business Combinations, which allows only the use of the purchase combination method of accounting. For acquisitions under the purchase method, BancGroup is required to record assets acquired and liabilities assumed at their fair value, which in many instances involves estimates based on third party, internal, or other valuation techniques. These estimates also include the establishment of various accruals for planned facilities dispositions and employee benefit related considerations, among other acquisition-related items. In addition, purchase acquisitions typically result in goodwill or other intangible assets, which are subject to ongoing periodic impairment tests. These tests, based on the fair value of net assets acquired compared to the carrying value of goodwill and other intangibles, also contain estimates such as discount rate and time periods in their calculations. Furthermore, the determination of which intangible assets have finite lives is subjective, as well as the determination of the amortization period for such intangible assets.

Accounting for Allowance for Loan Losses. Management s ongoing evaluation of the adequacy and allocation of the allowance considers both impaired and unimpaired loans and takes into consideration the Bank s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers ability to repay, estimated value of any underlying collateral, the reviews of regulators, and an analysis of current economic conditions. While management believes that it has exercised prudent judgment and applied reasonable assumptions which have resulted in an allowance presented in accordance with generally accepted accounting principles, there can be no assurance that in the future, adverse economic conditions, increased nonperforming loans, regulatory concerns, or other factors will not require further increases in, or re-allocation of the allowance.

Accounting for Income Taxes. BancGroup uses the asset and liability method of accounting for income taxes. Determination of the deferred and current provision requires analysis by management of certain transactions and the related tax laws and regulations. Management exercises significant judgment in

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evaluating the amount and timing of recognition of the resulting tax liabilities and assets. Those judgments and estimates are re-evaluated on a continual basis as regulatory and business factors change.

FINANCIAL CONDITION:

Ending balances of total assets, securities, mortgage loans held for sale, net loans, deposits, and long and short term debt changed for the nine months and twelve months ended September 30, 2002, respectively, as follows:

(Dollars in thousands)	**December 31, 2001 to September 30, 2002 Increase (Decrease)**		**September 30, 2001 to September 30, 2002 Increase (Decrease)**	
	Amount	**%**	**Amount**	**%**
Assets:				
Total Assets	1,903,622	14.4%	2,302,320	18.0%
Securities	689,607	36.6%	633,721	32.7%
Mortgage loans held for sale	119,299	336.5%	130,084	527.3%
Loans, net of unearned income	828,757	8.0%	1,217,304	12.2%
Total Deposits	832,972	10.0%	894,830	10.8%
Short-term debt	620,843	29.2%	861,904	45.7%
Long-term debt	257,567	14.4%	366,548	21.9%

Assets:

BancGroup s assets have increased 18.0% since September 30, 2001 and 14.4% since December 31, 2001. The growth from September 30, 2001 is primarily the result of increases in securities, internal loan growth throughout BancGroup s banking regions as well as the Mortgage Warehouse Lending unit, the purchase of 13 branches from Union Planters, the acquisition of Mercantile Bancorp in Texas and Palm Beach National Holding Company in Florida. The growth from December 31, 2001 is primarily the result of increases in securities, loans in the Mortgage Warehouse Lending unit and the acquisitions of Mercantile and Palm Beach. Other assets include approximately $10.3 million invested in certain non-banking entities including two Atlanta based real estate developments and an interest in a company providing internet and ACH services to banks. The Company continually investigates non-banking investment opportunities.

Securities:

Investment securities and securities available for sale have increased $633.7 million (32.7%) and $689.6 million (36.6%) from September 30, 2001 and December 31, 2001, respectively. These increases are the result of an effort to maintain earning asset growth during a period of slow to declining loan growth. Selectively purchasing short average life securities has enabled BancGroup to take advantage of spreads to short-term funding costs. The short-term funding of investment purchases mitigates the risk to falling rates. Securities purchased have consisted primarily of mortgage-backed securities and collateralized mortgage obligations and have been subject to accelerated prepayments in the quarter ended September 30, 2002.

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Loans and Mortgage Loans Held for Sale:

Loans net of unearned income, have increased $1,217.3 million (12.2%) and $828.8 million (8.0%) from September 30, 2001 and December 31, 2001, respectively. The increase in loans from September 30, 2001 and December 31, 2001 was primarily due to an increase in Real Estate Construction loans mostly from acquisitions, of $589.2 million and $432.5 million respectively, as well as an increase in Mortgage Warehouse Lending loans, of $607.9 million and $168.9 million respectively. The volume in the mortgage warehouse lending unit has been abnormally high in the third quarter due to increases in mortgage refinancing activity resulting from all time lows in mortgage rates. The increase in mortgage loans held for sale of $130.1 million and $119.3 million from September 30, 2001 and December 31, 2001, respectively, is also due to the significant increase in mortgage refinancing activity. The following table reflects the change in loan mix as of September 30, 2002.

GROSS LOANS BY CATEGORY (***Dollars in thousands***)	**September 30, 2002**	**December 31, 2001**	**September 30, 2001**
Commercial, financial, and agricultural	$ 1,084,934	$ 1,145,409	$ 1,184,310
Real estate-commercial	3,613,631	3,417,517	3,449,252
Real estate-construction	2,728,157	2,295,675	2,138,990
Real estate-residential	1,983,186	1,942,821	2,065,662
Installment and consumer	244,167	240,836	251,958
Mortgage warehouse lending	1,455,330	1,286,399	847,448
Other	87,214	39,019	41,852
Total Loans	$ 11,196,619	$ 10,367,676	$ 9,979,472

Residential real estate loans represent 17.7% of total loans at September 30, 2002 compared to 18.7% at December 31, 2001 and 20.7% at September 30, 2001. This decrease is primarily due to a drop in demand for adjustable rate mortgages as more borrowers are looking for long-term fixed rate loans, which the Company originates, but sells in the secondary market. Substantially all of these loans are adjustable rate first mortgages on single-family, owner-occupied properties, and therefore, have minimal credit risk and lower interest rate sensitivity. BancGroup has a history of successfully lending in the residential real estate market and its quality ratios remain favorable in this portfolio segment.

Commercial loans collateralized by real estate and construction loans increased approximately $196.1 million and $432.5 million, respectively from December 31, 2001. Commercial loans collateralized by real estate increased $164.4 million from September 30, 2001 while construction loans increased $589.2 million from the same period. These increases result mostly from acquisitions as well as internal loan growth.

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Management believes that any existing distribution of loans, whether geographically, by industry, or by borrower, does not expose BancGroup to unacceptable levels of risk. The current distribution of loans remains diverse in location, size, and collateral function. Our diversity, in addition to our emphasis on quality underwriting, serves to reduce the risk of losses. The following chart reflects the geographic diversity and industry distribution of Construction and Commercial Real Estate loans as of September 30, 2002.

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CONSTRUCTION & COMMERCIAL REAL ESTATE
GEOGRAPHIC DIVERSITY AND INDUSTRY DISTRIBUTION
SEPTEMBER 30, 2002

(Dollars in thousands)	Construction	Commercial Real Estate
Average Loan Size	$ 517	$ 512
Geographic Diversity		
Alabama	$ 324,914	$ 865,031
Georgia	443,765	428,258
Florida	1,282,210	1,648,826
Texas	384,032	245,181
Nevada	154,486	152,263
Other	138,750	274,072
Total	$ 2,728,157	$ 3,613,631

Industry Distribution	% of Industry Distribution to	
	Construction Portfolio	Total Portfolio
Developments (w/Land)	39%	10%
1-4 Family Residential	21%	5%
Condominiums	12%	3%
Multi-Family	8%	2%
Retail	6%	1%
Office	4%	1%
Other (13 types)	10%	2%
Total Construction	100%	24%

Industry Distribution	% of Industry Distribution to	
	Commercial Real Estate Portfolio	Total Portfolio
Retail	19%	6%
Office	16%	5%
Multi-Family	13%	4%
Lodging	11%	3%
Office/Warehouse	7%	2%
Nursing Home	4%	1%
Other (11 types)	30%	11%
Total Commercial Real Estate	100%	32%

Characteristics of the 75 Largest Construction and Commercial Real Estate Loans

	Construction	Commercial Real Estate
75 Largest Loans Total (in thousands)	$ 1,035,154	$ 770,596
% of 75 largest loans to category total	38.0%	21.3%
Average Loan to Value Ratio (75 largest loans)	68%	70%
Debt Coverage Ratio (75 largest loans)	N/A	1.36x

Substantially all Construction and Commercial Real Estate loans have personal guarantees of the principals involved. Owner-occupied Commercial Real Estate portfolio totals represented 23% of the total Commercial Real Estate portfolio at September 30, 2002.

Outstanding loans in our international division, located in our South Florida Region, represent 0.8% of our total outstanding loans at September 30, 2002. This exposure is spread among approximately 22 banking institutions in six Latin American/Caribbean countries. The banks are primarily top tier institutions. These transactions are trade related involving letters of credit as well as participations in commercial paper back up lines.

BancGroup does not have a syndicated lending department. However, the Company has 25 credits with total commitments (funded and unfunded) of $514 million that fall within the bank regulatory definition of a Shared National Credit (generally defined as a total loan commitment in excess of $20 million that is shared by three or more lenders). The largest outstanding amount to any single borrower is approximately $51 million (which is a mortgage warehouse facility), with the smallest credit being approximately $138,000 (not counting the credits with unfunded balances). As of September 30, 2002, $303 million of these commitments were funded.

Although by definition these commitments are considered Shared National Credits, BancGroup s loan officers have established long-term relationships with each of these borrowers. These commitments are comprised of the following:

17% - commercial real estate projects located within existing markets,

12% - international credits which are primarily unfunded short-term commitments to tier one correspondent banks,

62% - mortgage warehouse lines to eight large institutions (the mortgage warehouse lending department conducts its own audits of these borrowers), and

9% - operating facilities to two large national corporations headquartered in the Florida markets and one large Alabama corporation headquartered in Montgomery, Alabama.

Management believes that these are sound participations involving credits that fit within Colonial Bank s lending philosophy and meet its conservative underwriting guidelines.

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ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

Allocations of the allowance for loan losses are made on an individual loan basis for all loans rated less than satisfactory with a percentage allocation for the remaining portfolio. The allocation of the remaining allowance represents an approximation of the reserves for each category of loans based on management s evaluation of the respective historical charge-off experience and risk within each loan type.

(Dollars in thousands) **Balance at end of periodApplicable to:**	**September 30, 2002**	**Percent of Loans to Total Loans**	**December 31, 2001**	**Percent of Loans to Total Loans**	**September 30, 2001**	**Percent of Loans to Total Loans**
Commercial, financial, and agricultural	$ 34,253	9.7%	$ 33,326	11.1%	$ 36,307	11.9%
Real estate-commercial	57,003	32.3%	50,393	33.0%	43,907	34.6%
Real estate-construction	23,740	24.4%	17,256	22.1%	16,086	21.4%
Real estate-residential	9,916	17.7%	9,714	18.7%	10,328	20.7%
Installment and consumer	2,872	2.2%	2,390	2.3%	2,544	2.5%
Mortgage warehouse lending	3,638	13.0%	3,216	12.4%	2,119	8.5%
Other	4,938	0.7%	5,905	0.4%	4,053	0.4%
TOTAL	$ 136,360	100.0%	$ 122,200	100.0%	$ 115,344	100.0%

The ratio of annualized net charge-offs to average loans was 0.27%, 0.34%, and 0.37% for the third quarter of 2002, the fourth quarter of 2001, and the third quarter of 2001, respectively. The ratio of annualized net charge-offs to average loans was 0.24% year to date at September 30, 2002 compared to 0.28% for all of 2001 and 0.27% year to date at September 30, 2001, respectively. As a result of the Company s localized lending strategies and early identification of potential problem loans, BancGroup s net charge-offs have been consistently low compared to industry and peer data.

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SUMMARY OF LOAN LOSS EXPERIENCE

(Dollars in thousands)	September 30, 2002	December 31, 2001	September 30, 2001
Allowance for loan losses January 1	$ 122,200	$ 110,055	$ 110,055
Charge-offs:			
Commercial, financial, and agricultural	10,628	14,731	9,343
Real estate-commercial	3,384	9,354	8,268
Real estate-construction	1,306	292	45
Real estate-residential	3,527	3,148	2,275
Installment and consumer	2,595	4,049	2,480
Other	861	1,155	627
Total charge-offs	22,301	32,729	23,038
Recoveries:			
Commercial, financial, and agricultural	914	698	566
Real estate-commercial	948	404	310
Real estate-construction	62	9	8
Real estate-residential	455	565	326
Installment and consumer	1,173	1,999	1,559
Other	297	330	149
Total recoveries	3,849	4,005	2,918
Net charge-offs	18,452	28,724	20,120
Allowance added from bank acquisitions	7,835	1,296	566
Addition to allowance charged to operating expense	24,777	39,573	24,843
Allowance for loan losses-end of period	$ 136,360	$ 122,200	$ 115,344
Net charge-offs as a percent of average net loans - (annualized basis):			
Quarter to date	0.27%	0.34%	0.37%
Year to date	0.24%	0.28%	0.27%

The following schedule reflects BancGroup s 237% coverage of nonperforming loans (nonaccrual and renegotiated) by the allowance for loan losses at September 30, 2002. While management has not targeted any specific coverage ratio in excess of 100%, management is committed to maintaining adequate reserve levels to absorb estimated future losses in the current loan portfolio.

NONPERFORMING ASSETS ARE SUMMARIZED BELOW

(Dollars in thousands)	September 30, 2002	December 31, 2001	September 30, 2001
Aggregate loans for which interest is not being accrued	$ 56,336	$ 49,675	$ 58,441
Aggregate loans renegotiated to provide a reduction or deferral of interest or principle because of deterioration in the financial condition of the borrower	1,191	1,507	1,125
Total nonperforming loans *	57,527	51,182	59,566
Other real estate owned and repossessions	20,712	15,553	12,805
Total nonperforming assets *	$ 78,239	$ 66,735	$ 72,371
Aggregate loans contractually past due 90 days for which interest is being accrued	$ 25,696	$ 28,249	$ 21,095
Net charge-offs quarter-to-date	$ 7,167	$ 8,602	$ 9,199
Net charge-offs year-to-date	$ 18,452	$ 28,724	$ 20,120
Total nonperforming assets as a percent of net loans and other real estate	0.70%	0.64%	0.72%
Allowance as a percent of net loans	1.22%	1.18%	1.16%
Allowance as a percent of nonperforming assets *	174%	183%	159%
Allowance as a percent of nonperforming loans *	237%	239%	194%

* Does not include loans contractually past due 90 days or more which are still accruing interest.

Nonperforming assets increased to $78.2 million or 0.70% of net loans and other real estate at September 30, 2002, compared to $66.7 million or 0.64% at December 31, 2001. The increase primarily resulted from classifying as nonperforming the Company s outstanding portfolio ($15 million) of credits to Argentine banks. The 2002 Shared National Credit Examination by the Federal Reserve and other regulatory agencies required all banks to classify such loans as nonperforming. Management continuously monitors and evaluates recoverability of problem assets and adjusts loan loss reserves accordingly. The loan loss reserve was 1.22% of loans at September 30, 2002 compared to 1.18% at December 31, 2001 and 1.16% at September 30, 2001. Fluctuations from year to year in the balances of nonperforming assets are attributable to several factors including changing economic conditions in various markets, nonperforming assets obtained in various acquisitions and the disproportionate impact of larger (over $1,000,000) individual credits.

Management, through its loan officers, internal credit review staff and external examinations by regulatory agencies, has identified approximately $295 million of loans, which have been placed, on a classified loan list. The increase from the $288 million reported last quarter is primarily due to loans from the acquisition of Palm Beach National. The status of these loans is reviewed at least monthly by loan officers and annually by BancGroup s centralized credit review function and by regulatory agencies. In connection with such reviews, collateral values are updated where considered necessary. If collateral values are judged insufficient or other sources of repayment inadequate, the loans are reduced to estimated recoverable

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amounts through increases in reserves allocated to the loans or charge-offs. As of September 30, 2002, substantially all of these loans are current with their existing repayment terms. Management believes that classification of such loans well in advance of their reaching a delinquent status allows the Company the greatest flexibility in correcting problems and providing adequate reserves. Given the reserves and the ability of the borrowers to comply with the existing repayment terms, management believes any exposure from these loans has been adequately addressed at the present time.

Nonperforming loans represent all material credits for which management has serious doubts as to the ability of the borrowers to comply with the loan repayment terms. Management also expects that the resolution of these problem credits as well as other performing loans will not materially impact future operating results, liquidity or capital resources. The recorded investment in impaired loans at September 30, 2002 was $52.6 million and these loans had a corresponding valuation allowance of $20.8 million.

LIQUIDITY:

BancGroup has addressed its liquidity and interest rate sensitivity through its policies and structure for asset/liability management. BancGroup has an Asset/Liability Management Committee (ALMCO), the objective of which is to optimize the net interest margin while assuming reasonable business risks. ALMCO annually establishes operating constraints for critical elements of BancGroup s business, such as liquidity and interest rate sensitivity. ALMCO constantly monitors performance and takes action in order to meet its objectives.

A prominent focus of ALMCO is maintenance of adequate liquidity. Liquidity is the ability of an organization to meet its financial commitments and obligations on a timely basis. These commitments and obligations include credit needs of customers, withdrawals by depositors, repayment of debt when due and payment of operating expenses and dividends.

Core deposit growth is a primary focus of BancGroup s funding and liquidity strategy. Efforts to emphasize relationship deposit growth are having a positive impact. Average retail deposits in the third quarter 2002, excluding broker and time deposits, grew 19% over the same quarter in 2001, and 9% growth excluding acquisitions. The non-interest bearing portion of these retail deposits grew 6% excluding acquisitions over the same period and improved the non-interest bearing deposit mix from 16% to 17% of total retail deposits. As there was a decreased emphasis on higher cost time deposits versus more core deposits, average retail time deposits decreased 5% compared to third quarter 2001, a 10% decrease excluding acquisitions. As a result of the decrease in time deposits, the non-time deposit share of retail deposits increased to 50% in third quarter 2002 from 45% in third quarter 2001.

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In addition to funding growth through core deposits, BancGroup has worked to expand the availability of short and long term wholesale funding sources. As of September 30, 2002 the Bank utilized 67% vs. 57% at December 31, 2001 of the total wholesale funding sources (primarily Federal Home Loan Bank borrowings), estimated to be available. This increased utilization was a result of the increase in Mortgage Warehouse loans due to a refinancing boom caused by low mortgage rates. These floating rate loans were funded with short-term wholesale funds. Once refinancing activity subsides the funding utilization ratio is expected to decrease. Management believes its liquidity sources and funding strategies are adequate given the nature of its asset base and current loan demand.

INTEREST RATE SENSITIVITY:

ALMCO s goal is to minimize volatility in the net interest margin from changes in interest rates by taking an active role in managing the level, mix, repricing characteristics and maturities of assets and liabilities. ALMCO monitors the impact of changes in interest rates on net interest income using several tools, including static rate sensitivity reports, or Gap reports, and income simulation modeling under multiple rate scenarios.

The following table represents the output from the Company s most recent simulation model based on the balance sheet as of September 30, 2002, when the Fed Funds Rate was 1.75%, and measures the impact on net interest income of an immediate and sustained change in interest rates in 100 basis point increments for the 12 calendar months following the date of the change. Given the 50 basis point reduction in the Fed funds rate on November 6, 2002, a down 50 basis point rate shock has been added as well. This twelve month projection of Net Interest Income under these scenarios is compared to the twelve month Net Interest Income projection with rates unchanged.

	Fed Funds Rate	Percentage Change in 12 Month Projected Net Interest Income vs. Net Interest Income assuming no changes (1)
Basis Points change		
+200	3.75%	10%
+100	2.75	6
No Change	1.75	
- 50	1.25	(2)
- 100	.75	(3)

(1) The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay rates, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions BancGroup could undertake in response to changes in interest rates.

This table shows that under these rate shock scenarios, net interest income would benefit from rising rates,

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however, the risk to declining rates is acceptable considering the overall level of interest rates. The initial impact of a rate decline will be greater in the first quarter after a rate drop, and will improve as the liability side of the balance sheet has more time to adjust down to the new lower rate levels. The projections in the table are based on rate shocks where all rate indices are changed by the same amount. Therefore these simulations do not take into account the risk of yield curve shifts or change in the basis risk or spread between various rate indices. They also do not take into account balance sheet volume and mix changes that might occur due to changes in rates or yield curve slope. Additionally, interest rate floors have been written into approximately $2 billion of floating rate loans. However competitive pressures may not allow the bank to realize the full benefit of these floors, therefore this benefit is not included in the declining scenarios.

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The following table summarizes BancGroup s Maturity / Rate Sensitivity or Gap at September 30, 2002.

(Dollars in millions)

	0-90 days	0-365 days
Rate Sensitive Assets (RSA)	$ 8,300	$ 10,124
Rate Sensitive Liabilities (RSL)	5,034	8,029
Cumulative Gap (RSA-RSL)	3,266	2,095
Cumulative Gap Ratio (Cum Gap / Total Assets)	22%	14%

The last two lines of the proceeding table represents interest rate sensitivity gap which is the difference between rate sensitive assets and rate sensitive liabilities. BancGroup s somewhat asset-sensitive position is primarily the result of growth in floating rate loans and run off in fixed rate loans and securities.

In reviewing the table, it should be noted that the balances are shown for a specific point in time and, because the interest sensitivity position is dynamic, it can change significantly over time. For all interest earning assets and interest bearing liabilities, variable rate assets and liabilities are reflected in the time interval of the assets or liabilities earliest repricing date. Fixed rate assets and liabilities have been allocated to various time intervals based on contractual repayment and prepayment assumptions. Furthermore, the balances reflect contractual repricing of the deposits and management s position on repricing certain deposits where management discretion is permitted. Certain demand deposit accounts and regular savings accounts have been classified as repricing beyond one year in accordance with regulatory guidelines. While these accounts are subject to immediate withdrawal, experience and analysis have shown them to be relatively rate insensitive.

CAPITAL ADEQUACY AND RESOURCES:

Management is committed to maintaining capital at a level sufficient to protect shareholders and depositors, provide for reasonable growth and fully comply with all regulatory requirements. Management s strategy to achieve these goals is to retain sufficient earnings while providing a reasonable return to shareholders in the form of dividends and return on equity. The Company s dividend payout ratio target range is 30-45%. Dividend rates are determined by the Board of Directors in consideration of several factors including current and projected capital ratios, liquidity and income levels and other bank dividend yields and payment ratios.

The amount of a cash dividend, if any, rests within the discretion of the Board of Directors of BancGroup as well as upon applicable statutory constraints such as the Delaware law requirement that dividends may be paid only out of capital surplus or net profits for the fiscal year in which the dividend is declared or the preceding fiscal year.

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BancGroup also has access to equity capital markets through both public and private issuances. Management considers these sources and related return in addition to internally generated capital in evaluating future expansion or acquisition opportunities.

The Federal Reserve Board has issued guidelines identifying minimum Tier I leverage ratios relative to total assets and minimum capital ratios relative to risk-adjusted assets. The minimum leverage ratio is 3% but is increased from 100 to 200 basis points based on a review of individual banks by the Federal Reserve. The minimum risk adjusted capital ratios established by the Federal Reserve are 4% for Tier I and 8% for total capital. BancGroup s actual capital ratios and the components of capital and risk adjusted asset information (subject to regulatory review) as of September 30, 2002 are stated below:

Capital (in thousands):		
Tier I Capital:		
Shareholders equity (excluding unrealized gain on securities available for sale intangibles, and 8% of equity investments in nonfinancial entities plus Trust Preferred Securities)	$	951,346
Tier II Capital:		
Allowable loan loss reserve		136,360
Subordinated debt		261,071
45% of net unrealized gains on available for sale equity securities		168
Total Capital	$	1,348,945
Risk Adjusted Assets (in thousands)	$	12,060,548
Total Assets (in thousands)	$	15,088,725

	September 30, 2002	December 31, 2001
Tier I leverage ratio	6.93%	6.24%
Risk Adjusted Capital Ratios:		
Tier I Capital Ratio	7.89%	7.39%
Total Capital Ratio	11.18%	10.91%

BancGroup has increased capital gradually through normal earnings retention as well as through stock registrations to capitalize acquisitions. In addition to these sources, the Tier I Capital Ratio and Total Capital Ratio have been increased from the issuance of $100 million of Trust Preferred Securities during the first quarter of 2002. These securities provide additional flexibility for liquidity, capital management and growth.

Management continuously monitors its capital levels in order to ensure it is taking the necessary steps to support future internally generated growth and fund the quarterly dividend rates that were $0.13 per share each quarter of 2002 and are anticipated to be the same or slightly higher in 2003.

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AVERAGE VOLUME AND RATE (UNAUDITED)

(Dollars in thousands)	Three Months Ended September 30,					
	2002			2001		
	Average Volume	Interest	Rate	Average Volume	Interest	Rate
ASSETS						
Loans, net (1)	$ 9,488,834	$ 155,985	6.53%	$ 9,172,886	$ 181,210	7.85%
Mortgage warehouse lending	1,076,290	11,432	4.16%	840,376	11,854	5.52%
Mortgage loans held for sale	42,623	625	5.87%	22,733	357	6.28%
Investment securities and securities available for sale and other interest-earning assets (2)	2,521,772	31,058	4.93%	1,810,740	28,461	6.29%
Total interest-earning assets (1)	13,129,519	$ 199,100	6.02%	11,846,735	$ 221,882	7.44%
Non-earning assets	884,225			683,969		
Total assets	$ 14,013,744			$ 12,530,704		
LIABILITIES AND SHAREHOLDERS EQUITY:						
Interest-bearing non-time deposits	$ 2,954,052	$ 9,511	1.28%	$ 2,464,768	$ 13,253	2.13%
Time deposits	4,413,896	37,643	3.38%	4,667,992	64,234	5.46%
Short-term borrowings	2,131,628	10,318	1.92%	1,496,364	13,104	3.47%
Long-term debt	2,005,537	25,018	4.95%	1,708,905	25,478	5.92%
Total interest-bearing liabilities	11,505,113	$ 82,490	2.84%	10,338,029	$ 116,069	4.45%
Noninterest-bearing demand deposits	1,442,664			1,257,231		
Other liabilities	74,249			96,308		
Total liabilities	13,022,026			11,691,568		
Shareholders equity	991,718			839,136		
Total liabilities and shareholders equity	$ 14,013,744			$ 12,530,704		
RATE DIFFERENTIAL			3.18%			2.99%
		$ 116,610	3.53%		$ 105,813	3.56%

NET INTEREST INCOME AND NET YIELD ON INTEREST-EARNING ASSETS (3)		

(1) Loans classified as non-accruing are included in the average volume calculation. Interest earned and average rates on non-taxable loans are reflected on a tax equivalent basis. This interest is included in the total interest for loans. Tax equivalent interest earned is actual interest earned times 145%.

(2) Interest earned and average rates on obligations of states and political subdivisions are reflected on a tax equivalent basis. Tax equivalent interest earned is equal to actual interest earned times 145%. Tax equivalent average rate is tax equivalent interest earned divided by average volume.

(3) Net interest income divided by average total interest-earning assets

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AVERAGE VOLUME AND RATE
(UNAUDITED)

(Dollars in thousands)

	Nine Months Ended September 30,					
	2002			2001		
	Average Volume	Interest	Rate	Average Volume	Interest	Rate
ASSETS						
Loans, net (1)	$ 9,330,396	$ 466,318	6.68%	$ 9,351,895	$ 580,565	8.30%
Mortgage warehouse lending	925,632	29,949	4.27%	736,256	34,133	6.11%
Mortgage loans held for sale	27,873	1,303	6.23%	19,209	933	6.48%
Investment securities and securities available for sale and other interest-earning assets (2)	2,209,461	87,917	5.31%	1,672,076	81,049	6.46%
Total interest-earning assets (1)	12,493,362	$ 585,487	6.26%	11,779,436	$ 696,680	7.90%
Non-earning assets	833,565			668,101		
Total assets	$ 13,326,927			$ 12,447,537		
LIABILITIES AND SHAREHOLDERS EQUITY:						
Interest-bearing non-time deposits	$ 2,847,220	$ 27,601	1.30%	$ 2,463,698	$ 48,914	2.65%
Time deposits	4,268,096	113,744	3.56%	4,782,946	211,263	5.91%
Short-term borrowings	1,870,025	26,116	1.87%	1,617,382	55,927	4.62%
Long-term debt	1,917,182	74,170	5.17%	1,469,713	65,937	5.99%
Total interest-bearing liabilities	10,902,523	$ 241,631	2.96%	10,333,739	$ 382,041	4.94%
Noninterest-bearing demand deposits	1,396,336			1,199,493		
Other liabilities	82,004			101,365		
Total liabilities	12,380,863			11,634,597		
Shareholders equity	946,064			812,940		
Total liabilities and shareholders equity	$ 13,326,927			$ 12,447,537		

RATE DIFFERENTIAL		3.30%		2.96%
NET INTEREST INCOME AND NET YIELD ON INTEREST-EARNING ASSETS (3)	$ 343,856	3.67%	$ 314,639	3.57%

(1) Loans classified as non-accruing are included in the average volume calculation. Interest earned and average rates on non-taxable loans are reflected on a tax equivalent basis. This interest is included in the total interest for loans. Tax equivalent interest earned is actual interest earned times 145%.

(2) Interest earned and average rates on obligations of states and political subdivisions are reflected on a tax equivalent basis. Tax equivalent interest earned is equal to actual interest earned times 145%. Tax equivalent average rate is tax equivalent interest earned divided by average volume.

(3) Net interest income divided by average total interest-earning assets

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ANALYSIS OF INTEREST INCREASES / (DECREASES)
(UNAUDITED)

(Dollars in thousands)	Three Months Ended September 30, 2002 Change from 2001		
	Total	Attributed to (1) Volume	Rate
INTEREST INCOME:			
Loans, net	$ (25,225)	$ 36,881	$ (62,106)
Mortgage Warehouse Lending	(422)	11,954	(12,376)
Mortgage loans held for sale	268	423	(155)
Investment securities and securities for sale and other interest-earning assets	2,597	33,524	(30,927)
Total interest income(2)	(22,782)	82,782	(105,564)
INTEREST EXPENSE:			
Interest-bearing deposits	$ (30,333)	$ 8,647	$ (38,980)
Short-term borrowings	(2,786)	21,242	(24,028)
Long-term debt	(460)	16,825	(17,285)
Total interest expense	(33,579)	46,714	(80,293)
Net interest income	$ 10,797	$ 36,068	$ (25,271)

(1) Increases (decreases) are attributed to volume changes and rate changes on the following basis: Volume Change = change in volume times old rate. Rate Change = change in rate times old volume. The Rate/Volume Change = change in volume times change in rate, and it is allocated between Volume Change and Rate Change at the ratio that the absolute value of each of those components bear to the absolute value of their total.

(2) Interest earned and average rates on obligations of states and political subdivisions are reflected on a tax equivalent basis. Tax equivalent interest earned is: actual interest earned times 145%. Tax equivalent average rate is: tax equivalent interest earned divided by average volume.

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ANALYSIS OF INTEREST INCREASES / (DECREASES)
(UNAUDITED)

(Dollars in thousands)	Nine Months Ended September 30, 2002 Change from 2001		
		Attributed to (1)	
	Total	Volume	Rate
INTEREST INCOME:			
Loans, net	$ (114,247)	$ (1,393)	$ (112,854)
Mortgage Warehouse Lending	(4,184)	10,555	(14,739)
Mortgage loans held for sale	370	429	(59)
Investment securities and securities for sale and other interest earning assets	6,868	29,200	(22,332)
Total interest income(2)	(111,193)	38,791	(149,984)
INTEREST EXPENSE:			
Interest-bearing deposits	$ (118,832)	$ (4,601)	$ (114,231)
Short-term borrowings	(29,811)	12,301	(42,112)
Long-term debt	8,233	22,306	(14,073)
Total interest expense	(140,410)	30,006	(170,416)
Net interest income	$ 29,217	$ 8,785	$ 20,432

(1) Increases (decreases) are attributed to volume changes and rate changes on the following basis: Volume Change = change in volume times old rate. Rate Change = change in rate times old volume. The Rate/Volume Change = change in volume times change in rate, and it is allocated between Volume Change and Rate Change at the ratio that the absolute value of each of those components bear to the absolute value of their total.

(2) Interest earned and average rates on obligations of states and political subdivisions are reflected on a tax equivalent basis. Tax equivalent interest earned is: actual interest earned times 145%. Tax equivalent average rate is: tax equivalent interest earned divided by average volume.

NET INTEREST INCOME:

Net interest income is the foremost component of BancGroup s earnings and represents the difference or spread between interest and fee income generated from earning assets and the interest expense paid on deposits and borrowed funds. Interest rate volatility in addition to changes in the volume and mix of earning assets and interest bearing liabilities can significantly impact net interest income.

Net interest income on a tax equivalent basis increased $10.8 million to $116.6 million for the quarter ended September 30, 2002 from $105.8 million for the quarter ended September 30, 2001. Net interest income on a tax equivalent basis increased $29.2 million to $343.9 million for the nine months ended September 30, 2002 from $314.6 million for the same period in 2001. The net interest margin declined 3 basis points to 3.53% for the third quarter of 2002 versus 3.56% for the third quarter of 2001. Year to date

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net interest margin improved 10 basis points to 3.67% at September 30, 2002 from 3.57% at September 30, 2001.

The average rate on loans was 6.53% for the third quarter of 2002 compared to 7.85% for the third quarter of 2001. Additionally, the average rate of investment securities was 4.93 % for the third quarter of 2002 compared to 6.29% for the third quarter of 2001. Sharp declines in mortgage and treasury rates have resulted in record prepayments on loans and investment securities. These prepayments have resulted in lower security yields due to reinvestment of funds at lower yields, as well as accelerated amortization of premiums paid to acquire securities. During the same period, the rate on average interest-bearing liabilities was 2.84% for the third quarter of 2002 compared to 4.45% for the third quarter of 2001.

The 50 basis point cut in the fed funds rate announced by the Federal Reserve in November 2002 will hurt the margin. Some of the short term negative impact will be offset in later months as the CD portfolio, which has an average remaining term at September 30, 2002 of 12 months, will reprice to lower levels. Additionally, current low mortgage rates have increased refinancing activity. Because of this, mortgage warehouse volumes have increased, and as this low risk line of business has a lower margin, it will increase net interest income while having a negative impact on the net interest margin ratio. Lower mortgage rates have also resulted in continued increase of prepayments on mortgage backed loans and securities, thus lowering the yield on both these portfolios, these trends are also expected to continue.

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LOAN LOSS PROVISION:

The provision for loan losses for the quarter ended September 30, 2002 was $6,803,000 compared to $7,901,000 for the same period in 2001. Year to date loan loss provision was $24,777,000 and $24,843,000 for the nine months ended September 30, 2002 and 2001, respectively. The Company continues to focus its efforts on relationship based lending to known customers in its local market areas.

The reduction in loan loss provision during the third quarter 2002 was primarily the result of flat loan growth in the Company s regional banks, excluding Mortgage Warehouse Lending and acquisitions. With this reduction, BancGroup maintained a 237% coverage of nonperforming loans compared to 239% at December 31, 2001 and 194% at September 30, 2001. See management s discussion of loan quality and the allowance for loan losses presented in the Financial Condition section of this report.

NONINTEREST INCOME:

Noninterest income excluding securities gains increased $4.3 million (20.5%) and $8.9 million (14.3%) for the three months and nine months ended September 30, 2002 compared to the same period in 2001. Sources of noninterest income include financial planning services, electronic banking services, mortgage origination income, and cash management services which are included in service charges on deposit accounts.

Financial planning services experienced a $1.2 million (61%) increase in fee income during the three months ended September 30, 2002 over the same period in 2001 and a $1.8 million (27%) increase for the nine months ended September 30, 2002 over 2001. As a result of investor uncertainty in the economy, the Company has experienced a decline in sales of investments to customers; however, this decline was more than offset by an increase in fixed rate annuity sales.

BancGroup continues to expand electronic banking services through its ATM network, business and personal check card services, and internet banking. Noninterest income from electronic banking services increased $523,000 (31%) for the three months ended September 30, 2002 when compared to the same period in 2001 and $1.3 million (27%) for the nine months ended September 30, 2002 over 2001 through increased penetration of its customer base and the introduction of the Colonial Bank Business Check Card.

Mortgage origination fees increased $2.0 million (103%) for the three months ended September 30, 2002 compared to the three months ended September 30, 2001 and $3.5 million (64%) for the nine months ended September 30, 2002 over 2001. These increases are due to additional production of one-to-four family mortgage loans sold in the secondary market resulting from increases in refinancing activity. As stated earlier, in the third quarter 2002 mortgage rates reached the lowest level in 41 years.

Service charges on deposit accounts increased $698,000 (7%) for the three months ended September 30, 2002 over the same period in 2001 and $2.2 million (7%) for the nine months ended September 30, 2002

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over 2001. These increases are the result of an increase in normal deposit account related fees which includes an increase in cash management fees of approximately $201,000 (28%) for the third quarter and $553,000 (27%) year to date over the same periods in 2001. BancGroup also had additional branches in operation, 26 of which were acquired, for the three months and nine months ended September 30, 2002 as compared to the same periods in 2001.

NONINTEREST EXPENSES:

In support of the Company s sales culture, BancGroup continues to make strategic investments in its product and service offerings, technology systems, sales incentives and branch network to enhance the Company s competitive presence in existing markets. Some of these investments include improved automation of branch delivery systems, enhanced internet banking and wire transfer systems and an image processing system. BancGroup s philosophy is to make strategic investments in the tools employees need to optimize its customers financial success. Accordingly, noninterest expense excluding amortization of intangibles increased 7% for the quarter ended September 30, 2002 and 2% for the nine months ended September 30, 2002 as compared to the same periods in 2001. These comparisons also exclude $6.4 million and $12.7 million in additional operating expenses from acquired banks.

BancGroup s net overhead (total noninterest expense less noninterest income, excluding security gains, and amortization of intangibles) was $54.4 million for the three months ended September 30, 2002 compared to $46.5 million for the three months ended September 30, 2001, respectively. Year to date net overhead was $154.8 million at September 30, 2002 compared to $142.3 million at September 30, 2001.

Total noninterest expense increased $11.0 million for the third quarter of 2002 compared to the third quarter of 2001 and year to date noninterest expense increased $17.7 million over the same period in 2001. Annualized noninterest expense excluding amortization of intangibles to average assets was 2.27% for the three months ended September 30, 2002 compared to 2.15% for the three months ended September 30, 2001. Year to date annualized noninterest expense excluding amortization of intangibles to average assets was 2.26% for the nine months ended September 30, 2002 compared to 2.19% at September 30, 2001.

The increase in bank related expenses is primarily due to an increase of approximately $7.0 million and $12.9 million for the three months and nine months ended September 30, 2002 over the same periods in 2001, respectively, in salaries and employee benefits. These salary increases are the result of acquisitions completed during the current and previous year, additional branches opened, normal salary increases, additional incentive and production related compensation, and increased pension costs.

In order to improve the Company s market presence, three of its regional headquarters were relocated in 2001. The Company also acquired 13 branches from Union Planters in October 2001, First Mercantile

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Bank with five branches in March 2002 and completed the acquisition of Palm Beach National Holding Company with eight branches in September 2002. Primarily as a result of these efforts, occupancy and equipment expense for the three months and nine months ended September 30, 2002 increased $1.8 million and $3.4 million, respectively, when compared to the same periods in 2001.

Intangible asset amortization decreased $1.2 million and $3.6 million for the three months and nine months ended September 30, 2002, respectively, over the same periods in 2001 due primarily to the implementation of SFAS No. 142 discussed in Note I Intangible Assets.

The remaining increases in other expense of $3.4 million and $5.1 million for the three months and nine months ended September 30, 2002 over the same periods in 2001, respectively, are the result of the aforementioned acquisitions, improvements to the data communications network, and other normal operating expense.

In July of 2001 Colonial launched the Eagle project. The objective of the Eagle project is to implement retail delivery solutions that should enhance our ability to produce sales, provide exceptional service and promote profitable customer relationships while gaining operational efficiencies. We began implementation of new retail delivery systems in September 2002 with additional Internet banking capabilities and an enhanced call center. This will be followed in 2003 with new branch service delivery and loan delivery systems.

PROVISION FOR INCOME TAXES:

BancGroup s provision for income taxes is based on an approximate 34.5% and 36.0%, estimated annual effective tax rate for the years 2002 and 2001, respectively. The provision for income taxes for the three months ended September 30, 2002 and 2001 was $18.9 million and $17.5 million, respectively. The year to date provision for income taxes ended September 30, 2002 and 2001 was $55.9 million and $51.2 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item is included in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures.

The Company s management, including the Chief Executive Officer and Chief Financial Officer, evaluated the Company s disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities and Exchange Act of 1934, as amended) within 90 days prior to the filing date of this quarterly report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective. There were no significant changes in internal controls (including any corrective actions with regard to significant deficiencies or material weaknesses in the Company s internal controls) that could significantly affect the disclosure controls and procedures since the date of the evaluation. See the certifications by the Company s Chief Executive Officer and Chief Financial Officer following the signature page of this Report.

Part II Other Information

Item 1: Legal Proceedings - See Note B - COMMITMENTS AND CONTINGENCIES AT PART 1

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Item 2: Changes in Securities and Use of Proceeds - N/A

Item 3: Defaults Upon Senior Securities - N/A

Item 4: Submission of Matters to a Vote of Security Holders N/A

Item 5: Other Information

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, a certification of the Quarterly Report on Form 10-Q has been submitted to the Securities and Exchange Commission by each of the Chief Executive Officer and the Chief Financial Officer of BancGroup.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K None

(b) Reports on Form 8-K

1. Form 8-K was furnished on October 15, 2002 as Regulation F-D Disclosure in regard to third quarter 2002 earnings.

2. Form 8-K was furnished on September 9, 2002 as Regulation F-D Disclosure in regard to presentations made by management to institutional investors.

3. Form 8-K was furnished on August 14, 2002 as Regulation F-D Disclosure in regard to correspondence transmitted to the Securities and Exchange Commission on August 14, 2002 in compliance with Section 906 of the Sarbanes-Oxley Act of 2002.

4. Form 8-K was furnished on July 16, 2002 as Regulation F-D Disclosure in regard to second quarter 2002 earnings.

SIGNATURE

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.

THE COLONIAL BANCGROUP, INC.

Date: November 14, 2002

By: /s/ SHEILA MOODY

Sheila Moody
Its Chief Accounting Officer

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CERTIFICATIONS*

I, Flake Oakley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Colonial BancGroup, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluations as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 14, 2002

/s/ W. Flake Oakley
W. Flake Oakley
Chief Financial Officer

CERTIFICATIONS*

I, Robert E. Lowder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Colonial BancGroup, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluations as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 14, 2002

/s/ Robert E. Lowder
Robert E. Lowder
Chief Executive Officer