

RENASANT CORP
Form 4
June 14, 2006

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

(Print or Type Responses)

1. Name and Address of Reporting Person *
MATHEWS LARRY R

(Last) (First) (Middle)
1323 STRATFORD ROAD SE
(Street)

DECATUR, AL 35601

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
RENASANT CORP [RNST]

3. Date of Earliest Transaction
(Month/Day/Year)
06/01/2006

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)
Executive Vice President

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

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

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)		
			Code	V	Amount	(D)	Price		
Common Stock	06/01/2006		S		4,756	D	\$ 39 4,889	I	By IRA
Common Stock	06/02/2006		S		35	D	\$ 39 4,854	I	By IRA

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

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SEC 1474
(9-02)

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

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 5)
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MATHEWS LARRY R 1323 STRATFORD ROAD SE DECATUR, AL 35601			Executive Vice President	

Signatures

Larry Mathews 06/14/2006
 __Signature of Date
 Reporting Person

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
 - ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ding:0in 0in 0in 0in;width:10.9%;">

\$	236,219
\$	175,510
\$	643,757

\$

497,319

Cost of services

171,022

132,957

475,611

393,898

Research and development

5,504

4,676

16,221

13,790

General and administrative

11,082

Explanation of Responses:

	8,632
	31,481
	23,597
Operating income	
	48,611
	29,245
	120,444
	66,034
Interest expense	
	2,002
	1,140
	5,128
	2,803
Interest income	

)	(3,302
)	(1,553
)	(7,629
)	(3,080
)	
Gain on involuntary conversion of assets	
)	(2,000
)	
Other expense (income), net	
)	711
)	(901
)	66
)	(963
)	
Explanation of Responses:	5

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Income before provision for income taxes

49,200

30,559

124,879

67,274

Provision for income taxes

16,324

12,152

49,135

30,521

Net income

\$

32,876

\$

18,407

Explanation of Responses:

\$

75,744

\$

36,753

Net income per share:

Explanation of Responses:

Basic:

Net income per common share

\$

.92

\$

.54

\$

2.16

Explanation of Responses:

8

\$

1.09

Weighted average common shares (including exchangeable shares)

35,555

33,792

35,091

33,775

Diluted:

Net income per common share

\$.84

\$.52

\$ 1.95

\$ 1.05

Weighted average common shares (including exchangeable shares)

39,194

35,131

38,833

Explanation of Responses:

10

Comprehensive income:

Net income

\$

32,876

\$

Explanation of Responses:

18,407

\$

75,744

\$

36,753

Other comprehensive income (net of tax, \$0 in all periods):

Foreign currency translation adjustments

1,740

(889

)

8,373

5,699

Explanation of Responses:

12

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Unrealized loss on investments available for sale

(342

)

(116

)

Total other comprehensive income (loss)

1,740

(1,231

)

8,373

5,583

Comprehensive income

\$

34,616

\$

17,176

Explanation of Responses:

13

\$

84,117

\$

42,336

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

(Unaudited)

	April 30, 2006 (Unaudited)	July 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 378,228	\$ 249,393
Restricted cash investments	696	237
Accounts receivable (net of allowance of \$910 at April and \$1,322 at July)	203,821	165,989
Materials and supplies inventory	7,330	5,381
Prepayments and other	23,740	18,900
Deferred tax asset and tax receivables	10,766	12,486
Total current assets	624,581	452,386
Property and equipment	539,792	495,090
Less accumulated depreciation	401,412	367,173
Property and equipment, net	138,380	127,917
Multi-client data library	272,183	316,793
Deferred tax asset, net	42,658	45,963
Other assets	23,818	23,539
Total	\$ 1,101,620	\$ 966,598
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	\$ 155,000	\$ 75,810
Accounts payable, trade	76,455	75,810
Accrued and deferred income taxes	17,644	9,402
Deferred revenue	46,500	42,043
Other accrued liabilities	62,985	65,193
Total current liabilities	358,584	192,448
Non-current liabilities:		
Long-term debt		155,000
Other non-current liabilities	41,750	36,602
Total non-current liabilities	41,750	191,602
Commitments and contingent liabilities (Note 5)		
Stockholders equity:		
Common stock, \$.01 par value; issued: 36,908,931 shares and 35,580,032 shares, respectively (excluding Exchangeable Shares of 88,866 and 155,370, respectively)	369	355
Additional paid-in capital	486,736	451,704
Accumulated earnings	221,889	146,145
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustment	22,618	14,245
Unrealized gain on investments available for sale		197
Minimum pension liability	(8,388)	(8,410)
Treasury stock, at cost: 1,326,645 shares and 1,320,106 shares, respectively	(21,938)	(21,688)
Total stockholders equity	701,286	582,548

Explanation of Responses:

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Total	\$	1,101,620	\$	966,598
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See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended April 30,	
	2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 75,744	\$ 36,753
Non-cash items included in net income:		
Depreciation and amortization, net (other than multi-client)	35,264	33,164
Amortization of multi-client data library	157,642	103,559
Stock based compensation	4,728	263
Deferred taxes	4,822	(372)
Change in operating assets and liabilities:		
Accounts receivable	(51,022)	26,870
Materials and supplies inventory	(1,945)	(696)
Prepayments and other	(5,002)	4,013
Current income tax	14,195	19,632
Accounts payable, deferred revenue, and other accrued liabilities	(2,125)	6,637
Other	2,394	9,987
Net cash provided by operating activities	234,695	239,810
Cash flows from investing activities:		
Investment in multi-client data library, net cash	(101,426)	(77,558)
Purchase of property and equipment	(47,523)	(43,533)
Proceeds from involuntary conversion of assets	15,520	
Sale of property and equipment	222	1,240
Increase in restricted cash	(457)	(125)
Net cash used by investing activities	(133,664)	(119,976)
Cash flows from financing activities:		
Excess tax benefit from stock based compensation	2,427	
Principal payments on capital lease obligations	(1,536)	
Net proceeds from sale of common stock	23,392	1,918
Net cash provided by financing activities	24,283	1,918
Currency gain on foreign cash	3,521	402
Increase in cash and cash equivalents	128,835	122,154
Beginning cash and cash equivalents balance	249,393	116,299
Ending cash and cash equivalents balance	\$ 378,228	\$ 238,453

Schedule of non-cash transactions:

Capitalization of depreciation and amortization resulting in an increase in multi-client data library	\$ 9,098	\$ 7,015
Capital lease obligations incurred for the purchase of property and equipment	\$ 3,742	\$

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of significant accounting policies

Basis of presentation

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These consolidated financial statements are unaudited, but in the opinion of management, contain all appropriate adjustments, all of which are normally recurring adjustments unless otherwise disclosed. These financial statements, including selected notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Certain reclassifications have been made to the prior period amounts to conform to the current period classification. These interim financial statements should be read in conjunction with the consolidated financial statements presented in the Veritas DGC Inc. Annual Report on Form 10-K for the year ended July 31, 2005.

Recent Accounting Pronouncements

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In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, which provides guidance on the recently enacted American Jobs Creation Act of 2004 (the Act). The Act provides a U.S. tax deduction for income from qualified domestic production activities beginning in our fiscal year ending July 31, 2006. FSP 109-1 provides for the treatment of the deduction as a special deduction as described in SFAS No. 109. Accordingly, we will record the amount of any special deductions in the years they are taken.

In December 2004, the FASB issued FASB Staff Position No. 109-2, Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004, which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Act on a company's income tax expense and deferred tax liability. FSP 109-2 states that a company is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The company is completing its evaluation on whether, and to what extent, we might elect to repatriate foreign earnings under the provisions in the Act. Any such repatriation under the Act must occur by July 31, 2006. Accordingly, Veritas' consolidated financial statements do not reflect a provision for taxes related to this election.

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29, to address the measurement of exchanges of nonmonetary assets. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement was adopted by the company beginning August 1, 2005. The adoption of this statement had no impact on the company's financial statements and is not expected to have a material impact on future financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS No. 154 is not expected to have a material impact on the company's financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of FASB Statements No. 133 and 150. SFAS No. 155 (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (b) clarifies that certain instruments are not subject to the requirements of SFAS 133, (c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that may contain an embedded derivative requiring bifurcation, (d) clarifies what may be an embedded derivative for certain concentrations of credit risk and (e) amends SFAS 140 to eliminate certain prohibitions related to derivatives on a qualifying special-purpose entity. SFAS 155 is effective for us for the fiscal year beginning August 1, 2007. The implementation of SFAS No. 155 is not expected to have a material impact on the company's financial statements.

2. **Earnings per common share**

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Basic and diluted earnings per common share are computed as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2006	2005	2006	2005
	(In thousands, except per share amounts)			
Net income	\$ 32,876	\$ 18,407	\$ 75,744	\$ 36,753
Basic:				
Weighted average common shares (including exchangeable shares)	35,555	33,792	35,091	33,775
Income per share	\$.92	\$.54	\$ 2.16	\$ 1.09
Diluted:				
Weighted average common shares (including exchangeable shares)	35,555	33,792	35,091	33,775
Shares issuable from assumed conversion of notes	3,216		3,216	
Shares issuable from assumed exercise of options	341	1,295	454	1,149
Shares issuable from assumed vesting of restricted stock	82	44	72	46
Total	39,194	35,131	38,833	34,970
Income per share	\$.84	\$.52	\$ 1.95	\$ 1.05

The shares issuable from assumed conversion of notes for both the three and nine months ended April 30, 2006 are based upon a stock price of \$47.92, which was the closing price of Veritas DGC's common stock at April 28, 2006, the last business day of the quarter.

The following options to purchase common shares have been excluded from the computation assuming dilution because the exercise prices of the options exceed the average market price of the underlying common shares or the options are anti-dilutive due to a net loss.

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2006	2005	2006	2005
Number of options	6,541	397,130	15,407	729,496
Exercise price range	\$45.31-55.13	\$27.81-55.13	\$38.13-55.13	\$24.44-55.13
Expiring through	May 2008	March 2012	May 2008	March 2012

3. **Gain on involuntary conversion of assets**

3. Gain on involuntary conversion of assets

In January 2005, our seismic vessel Veritas Viking experienced an engine failure while acquiring data in the Gulf of Mexico and lost substantial amounts of overboard seismic equipment. This seismic equipment was insured at its replacement cost. As a result, insurance settlements for reimbursement of certain costs and to acquire replacement equipment in excess of the book value of the equipment lost less our deductible were recorded as a gain of \$9.9 million during the fourth quarter of fiscal year 2005. An additional \$2.0 million gain was recorded in the first quarter of fiscal 2006 due to the timing of the insurance settlements, which are substantially complete.

4. Notes payable and debt structure

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As of April 30, 2006, our notes payable consisted of \$155.0 million of Convertible Senior Notes due 2024. These notes are classified as a current liability as of April 30, 2006 because the conversion feature discussed below results in the notes being convertible at the option of the holders.

The Convertible Senior Notes bear interest at a per annum rate which equals the three-month LIBOR rate, adjusted quarterly, minus a spread of 0.75%. The interest rate of the notes, from March 15, 2006 through June 14, 2006, is 4.16%, based on a LIBOR rate of 4.91%. For the third quarter of fiscal 2006, the weighted average interest rate on the notes was 3.96%. The notes will mature on March 15, 2024 and may not be redeemed by us prior to March 20, 2009. Holders of the notes may require us to repurchase some, or all, of the notes on March 15, 2009, 2014 and 2019. They could also require repurchase upon a change of control (as defined in the indenture under which the Convertible Senior Notes were issued).

Under certain circumstances and at the option of the holder, the Convertible Senior Notes are convertible prior to the maturity date into cash and shares of our common stock. Certain of these circumstances may result in classification of the Convertible Senior Notes as current on our balance sheet. These circumstances include:

1. the closing sale price of our common stock is over 120% of the conversion price, which is currently \$24.03 (with 120% being \$28.84) for 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the fiscal quarter preceding the quarter in which the conversion occurs;
2. if we called the notes for redemption and the redemption has not occurred;
3. the occurrence of a five consecutive trading day period in which the trading price of the notes was less than 95% of the closing sale price of our common stock on such day multiplied by the conversion ratio; or
4. the occurrence of specified corporate transactions.

Should any of these circumstances occur, the Convertible Senior Notes would be convertible at the then current stock price times the conversion ratio of 41.6146. This amount would be payable in cash equal to the principal amount of the notes, the par value adjusted for dividends or other equity transactions, and the additional amount payable in shares of our common stock. Currently, the maximum amount payable by us on conversion is \$155 million in cash plus approximately 6.5 million shares. This settlement method is prescribed in the indenture and is not at the discretion of any party. The shares issuable from such conversion are considered in the calculation of diluted earnings per share.

As of the beginning of the second quarter of fiscal 2006, the Convertible Senior Notes were convertible as the stock price remained greater than 120% of the Conversion Price for at least 20 trading days in the period of 30 consecutive trading days ending on October 31, 2005. The notes continued to be convertible as of April 30, 2006. Because of the convertibility, the notes have been classified as a current liability on our consolidated balance sheet as of April 30, 2006. The determination of the convertibility of the notes occurs quarterly. Depending upon the common stock price in the future, the notes may not be convertible in future quarters and therefore would not be classified as current on our consolidated balance sheet. Assuming a stock price of \$47.92 (which was the closing stock price on the last business day of the quarter ended April 30, 2006), conversion of all the notes would result in

our payment of \$155 million in cash and 3.2 million shares of common stock.

In connection with our issuance of the Convertible Senior Notes, we entered into a registration rights agreement pursuant to which we agreed to register the resale of the notes and underlying common stock by the holders thereof. Under the terms of that registration rights agreement, we were required to file a shelf registration statement for the notes and underlying common stock within an agreed amount of time and thereafter to keep it current or useable for two-year period ending in March 2006. If we failed to file or keep the shelf registration statement related to this debt effective or usable in accordance with the registration rights agreement, then, subject to certain exceptions, we were required to pay liquidated damages to all holders of notes and all holders of our common stock issued upon conversion of the notes. The liquidated damages to be paid were equal to an annual rate of 0.50% of the principal amount. In November 2005, the shelf registration statement became no longer effective and, accordingly, we began accruing and paying liquidated damages at approximately \$2,100 per day. For the nine months ended April 30, 2006, we have recorded and paid approximately \$310,000 of expense related to these liquidated damages. We are not required to register the resale of the notes and underlying common stock after March 10, 2006 and therefore, our liability for the payment of liquidated damages ended on that date.

In addition to the notes, we also have a five-year \$85 million revolving loan agreement with a syndicate of banks. We entered into this facility in February 2006. The facility provides for revolving loans and the issuance of letters of credit to Veritas DGC Inc. and certain of its subsidiaries of up to \$45 million in the United States, \$15 million in Canada, \$15 million in Singapore and \$10 million in the United Kingdom. As of April 30, 2006, there were no borrowings and \$19.6 million of outstanding letters of credit, leaving \$65.4 million available under the revolving loan facility. This new credit facility replaced our previous credit facility that consisted primarily of a revolving loan facility.

The facility is secured by pledges of accounts receivable and the U.S. land data library, which, when added together, have a carrying amount of approximately \$230 million as of April 30, 2006. The facility is also secured by certain intercompany notes and stock in certain Veritas subsidiaries. Veritas and certain of its subsidiaries have also issued loan guarantees with respect to certain borrowings. Interest rates on borrowings under the facility are selected by the borrower at the time of any advance and the rates so selected may be either at LIBOR plus 1.00% or the Base Rate (defined as the lesser of the applicable prime rate or the federal funds rate). These rates may be adjusted upward depending upon our leverage ratio (calculated as a ratio of funded debt versus EBITDA for the previous four quarters) to a maximum of LIBOR plus 1.50% or the base rate plus 0.50%. The loan agreement and related documents contain customary financial covenants and default provisions. These covenants contain certain financial measurements as of quarter ending dates, and, as of our last fiscal quarter ended April 30, 2006, we were in compliance with these covenants.

We also have various unsecured lines of credit, with lending institutions that operate in geographic areas not covered by the lending institutions in our credit facility, totaling \$8.5 million that may be used exclusively for the issuance of letters of credit and bank guarantees. As of April 30, 2006, \$1.6 million in letters of credit were outstanding under these lines.

5. **Commitments and contingencies**

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In March 2006, we entered into an agreement to charter a seismic vessel which is to be newly constructed. The time charter is for a period of 8 years fixed, with options of up to 10 more years. When delivered in February 2007, the vessel will be the seventh seismic vessel in our fleet. In addition to the charter, we are committed to invest approximately \$62 million to equip the vessel for seismic operations. Of this expected total, approximately \$6 million is expected to be spent during the fiscal year ending July 31, 2006 with the remainder expected to be spent during the fiscal year ending July 31, 2007. We have also entered into a commitment to purchase approximately \$26 million of recording equipment to upgrade a vessel in our existing fleet. Substantially all of this amount will be spent during the fiscal year ending July 31, 2007.

6. Pension plan

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We maintain a contributory defined benefit pension plan for eligible participating employees in the United Kingdom. The following is the net periodic benefit cost by component:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2006	2005	2006	2005
	(In thousands)			
Service cost (benefits earned during the period)	\$ 324	\$ 155	\$ 978	\$ 459
Interest cost on projected benefit obligation	470	316	1,418	935
Expected return on plan assets	(317)	(225)	(957)	(666)
Amortization of prior service cost	(35)	(38)	(106)	(112)
Amortization of net gain	256	79	772	235
Amortization of transition obligation	2	2	6	6
Net periodic benefit costs	\$ 700	\$ 289	\$ 2,111	\$ 857

We have made contributions to this plan based on the schedule of contributions on which the above service cost is based and expect to complete these contributions, totaling approximately \$1.3 million for the year, during fiscal 2006.

7. Segment information

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We have organized the company into four reportable segments: North and South America (NASA); Europe, Africa, Middle East and Commonwealth of Independent States (EAME); Asia Pacific (APAC); and Veritas Hampson-Russell (VHR). In NASA, EAME and APAC, we conduct geophysical surveys on both a contract and a multi-client basis. When we conduct surveys on a contract basis, we acquire and process data for a single client who pays us to conduct the survey and owns the data we acquire. When we conduct surveys on a multi-client basis, we acquire and process data for our own account and license that data and associated products to multiple clients. NASA, EAME and APAC offer a common suite of these products and services to their customers, although each product or service may be adapted to meet the needs of the local markets. VHR licenses geophysical software and provides geophysical reservoir consulting services. The results of VHR's operations were previously included in those of the NASA region; however, beginning in fiscal 2006, senior management began to review the results of VHR separately. This segmentation of our company is representative of the manner in which it is viewed and managed by our senior managers and our Board of Directors. The information related to the three and nine months ended April 30, 2005 has been restated to reflect the new segment structure. A reconciliation of the reportable segments' results to those of the total enterprise is given below:

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	For the Three Months Ended April 30, 2006						Total
	NASA	EAME	APAC	VHR	Corporate		
	(In thousands)						
Revenue	\$ 172,557	\$ 31,246	\$ 27,366	\$ 5,050	\$	\$	236,219
Depreciation and amortization, net(other than multi-client)	9,274	1,187	432	1,015	258		12,166
Amortization of multi-client library	43,611	5,669					49,280
Operating income (loss)	51,719	3,989	3,989	1	(11,087)		48,611
Assets	544,871	161,655	79,936	15,215	299,943		1,101,620

	For the Three Months Ended April 30, 2005						Total
	NASA	EAME	APAC	VHR	Corporate		
	(In thousands)						
Revenue	\$ 111,007	\$ 30,636	\$ 29,396	\$ 4,471	\$	\$	175,510
Depreciation and amortization, net(other than multi-client)	7,151	1,422	1,198	945	253		10,969
Amortization of multi-client library	12,875	5,568	713				19,156
Operating income (loss)	26,489	7,498	4,336	(854)	(8,224)		29,245
Assets	457,425	103,251	51,508	14,705	212,053		838,942

	For the Nine Months Ended April 30, 2006						Total
	NASA	EAME	APAC	VHR	Corporate		
	(In thousands)						
Revenue	\$ 445,541	\$ 99,705	\$ 83,882	\$ 14,629	\$	\$	643,757
Depreciation and amortization, net(other than multi-client)	23,614	4,660	3,321	2,969	700		35,264
Amortization of multi-client library	132,282	25,360					157,642
Operating income (loss)	123,923	14,198	15,231	(1,427)	(31,481)		120,444
Assets	544,871	161,655	79,936	15,215	299,943		1,101,620

	For the Nine Months Ended April 30, 2005						Total
	NASA	EAME	APAC	VHR	Corporate		
	(In thousands)						
Revenue	\$ 318,527	\$ 95,486	\$ 71,497	\$ 11,809	\$	\$	497,319
Depreciation and amortization, net(other than multi-client)	22,192	3,932	3,368	2,846	826		33,164
Amortization of multi-client library	70,531	29,734	3,294				103,559
Operating income (loss)	73,025	14,998	5,452	(4,334)	(23,107)		66,034
Assets	457,425	103,251	51,508	14,705	212,053		838,942

Corporate operating income (loss) includes certain general and administrative and research and development expenses not allocated to the segments. Corporate assets consist primarily of cash and cash equivalents.

8. **Stock based compensation**

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As of August 1, 2005, we adopted the Financial Accounting Standard Board Statement No. 123(R) (SFAS 123R) to account for stock based employee compensation. SFAS 123R requires us to record the cost of stock options and other equity-based compensation in our income statement based upon the estimated fair value of those awards. We elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options and other equity-based compensation beginning in the first quarter of adoption. Accordingly, prior periods have not been restated to reflect stock based compensation. For all unvested options outstanding as of August 1, 2005, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, will be recognized in the statement of operations over the remaining

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vesting period. For equity-based compensation granted subsequent to August 1, 2005, compensation expense, based on the fair value on the date of grant, will be recognized in the statement of operations over the vesting period. For deferred share units, it is our policy to determine the fair value of the units based on our common stock price at the date of grant which is then expensed over the applicable service period.

Prior to December 11, 2002, we had two employee nonqualified stock option plans under which options were granted to officers and select employees. Options generally vested over three years and were exercisable over a five to ten-year period from the date of grant. The exercise price for each option was the fair market value of the common stock on the grant date. Our Board of Directors authorized 5,954,550 shares of common stock to be issued under these option plans.

Prior to December 11, 2002, we also maintained a stock option plan for non-employee directors (the Director Plan) under which options were granted to our non-employee directors. The Director Plan provided that every year each eligible director was granted options to purchase 5,000 shares of our common stock which vest over a period of three years from the date of grant and are exercisable over five to ten years from the date of grant. The exercise price for each option granted was the fair market value at the date of grant. The Board of Directors authorized 600,000 shares of common stock to be issued under the Director Plan.

On December 11, 2002, we adopted our current Share Incentive Plan that provides for the issuance to directors, officers and select employees of: (1) nonqualified options to purchase our common stock, (2) incentive options to purchase our common stock, (3) share appreciation rights, (4) deferred share units, (5) restricted shares and (6) performance shares. Options issued to employees under the Share Incentive Plan have exercise prices equal to the fair market value at the date of grant; have five-year lives and vest over three years. Options issued to continuing non-employee directors under the Share Incentive Plan have exercise prices equal to the fair market value at the date of grant, have five-year lives and vest immediately. In lieu of options, non-employee directors have been granted the right to receive one deferred share unit (DSU) for each option which would otherwise have been granted. These DSUs are vested immediately and automatically convert to one share of our common stock when the service as a director terminates. As of April 30, 2006, 1.3 million shares were reserved for issuance under this plan, with no more than 0.3 million of those shares issuable in any form other than stock options.

Information related to stock based compensation follows:

	Three Months Ended April 30, 2006	Nine Months Ended April 30, 2006
	(in millions of dollars, except per share data)	
Compensation costs recorded for all plans	\$ 1.6	\$ 4.7
Tax benefit recognized in income statement for share-based compensation arrangements	0.5	1.4
Impact of adopting SFAS 123R to:		
Net income	1.1	3.3
Basic earnings per share	0.03	0.09
Diluted earnings per share	0.03	0.08

SFAS 123R requires tax benefits relating to excess stock based compensation deductions to be prospectively presented in our statement of cash flows as financing cash inflows. Accordingly, for the nine months ended April 30, 2006, we reported approximately \$2.4 million of excess tax benefits from stock based compensation as cash provided by financing activities on our statement of cash flows.

Our policy of meeting the requirements upon exercise of stock options is to issue new shares.

As of April 30, 2006, there was approximately \$8.8 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized on a straight line basis over the weighted average remaining period which is approximately 2 years.

Stock options

The fair value of each option award granted after August 1, 2005 is estimated on the date of grant using a lattice-based option valuation model that uses the assumptions noted in the following table. Expected volatilities are based on implied volatilities from traded options on our stock and historical volatility of our stock. We use historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees were reviewed and shown to have similar historical exercise behavior and are considered together for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

	Nine Months Ended April 30, 2006
Expected volatility	50.8%
Expected dividends	0%
Expected term (in years)	4.0
Risk free rate	4.0%

The following table provides additional information related to this stock option plan:

	For the Nine Months Ended April 30, 2006				
	Number of Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Contractual Life In Years	Aggregate Intrinsic Value (000 s)
Beginning balance	2,422,790	\$ 17.52			
Options granted	209,750	31.94	\$ 13.29	4.5	
Options exercised	(1,208,362)	17.57			
Options forfeited	(39,605)	23.27			
Total outstanding	1,384,573	19.56		3.0	\$ 39,263
Options exercisable and vested	1,055,273	18.47		2.8	\$ 31,080

The total intrinsic value of options exercised during the nine months ended April 30, 2006 and 2005 was \$25.8 million and \$1.5 million, respectively. The intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of an option. Cash received under all share-based payment arrangements for the nine months ended April 30, 2006 was approximately \$23.4 million. The tax benefit realized for the tax deductions resulting from option exercises of share-based payment arrangements was approximately \$3.6 million for the nine months ended April 30, 2006.

Performance shares

During October 2005, certain participants were awarded rights to receive restricted shares of the company in October 2006. Restricted shares will be granted, if earned, in October 2006. The number of shares is based upon established performance targets that will be assessed at the end of the fiscal year. The vesting of the issued restricted shares will be two years after the performance targets are assessed and therefore the service period is from the date of grant through July 31, 2008. These shares were valued initially at \$31.94 per share for a total value of \$2.5 million

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based upon the market price of the shares at the award date and the expected outcome of the performance targets. Based on the results for the nine months ended April 30, 2006 and the increased probability that the fiscal 2006 performance targets will be exceeded, we accrued additional stock based compensation related to the performance shares. The shares are currently valued at \$4.9 million, which will be recorded as compensation expense over the remaining service period. The compensation expense related to this plan may continue to fluctuate based upon the expected outcome of the performance targets.

Restricted Stock

Restricted shares awarded generally vest ratably over 3 years. The status of the restricted stock as of July 31, 2005 and the changes during the fiscal year through April 30, 2006 are presented below:

	Number of Shares
Nonvested at July 31, 2005	54,134
Activity for the quarter ended October 31, 2005:	
Granted	97,500
Less: Vested	7,167
Less: Forfeited	1,888
Nonvested at October 31, 2005	142,579
Activity for the quarter ended January 31, 2006:	
Granted	3,100
Less: Vested	14,540
Less: Forfeited	
Nonvested at January 31, 2006	131,139
Activity for the quarter ended April 30, 2006:	
Granted	2,000
Less: Vested	3,033
Less: Forfeited	4,388
Nonvested at April 30, 2006	125,718

The weighted average grant date fair value for the granted restricted stock was \$43.26 and \$32.11 per share for the three and nine months ended April 30, 2006, respectively. The total fair value of shares vested during the three and nine months ended April 30, 2006 and 2005 was as follows (in thousands of dollars):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2006	2005	2006	2005
Fair value of shares vested	\$ 132	\$ 74	\$ 955	\$ 565

Employee Stock Purchase Plan

We also have an employee stock purchase plan which was approved by our stockholders. Originally 1,000,000 shares were authorized for issuance under this plan. Participation is voluntary and substantially all full-time employees meeting limited eligibility requirements may participate. Contributions are made through payroll deductions and may not be less than 1% or more than 15% of the participant's base pay as defined. The participant's option to purchase common stock is deemed to be granted on the first day and exercised on the last day of the fiscal quarter at a price that is the lower of 85% of the market price on the first or last day of the fiscal quarter. Information related to the shares granted during the first and second quarters of fiscal 2006 is below. The fair value was determined using the Black-Scholes option valuation method using the assumptions shown below.

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For the quarter ended	Shares granted	Quarter when to be issued	Grant date fair value	Assumptions used in valuation model			
				Risk free rate	Volatility	Expected life	Expected dividends
October 31, 2005	23,144	Second	\$ 7.52	3.5%	47%	90 days	
January 31, 2006	21,878	Third	\$ 7.50	3.9%	40%	90 days	
April 30, 2006	19,543	Fourth	\$ 10.67	4.7%	39%	90 days	

Prior to August 1, 2005

Prior to August 1, 2005, we accounted for equity-based compensation using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25. As required by SFAS 123R, we have disclosed below the effect on net income and earnings per share of equity-based employee compensation, including stock options, that would have been recorded using the fair value based method for the three and nine months ended April 30, 2005.

	Three Months Ended April 30, 2005	Nine Months Ended April 30, 2005
Net income as reported	\$ 18,407	\$ 36,753
Add: Compensation expense, net of related tax effects	84	263
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(648)	(2,002)
Pro forma net income	\$ 17,843	\$ 35,014
Earnings per share:		
Basic:		
As reported	\$.54	\$ 1.09
Pro-forma	.53	1.04
Diluted:		
As reported	\$.52	\$ 1.05
Pro-forma	.51	1.00

The weighted average fair values of options granted during fiscal 2005 were determined using the Black-Scholes option valuation method assuming no expected dividends. Other assumptions used are as follows:

For the Three and Nine Months Ended April 30, 2005	
Risk-free interest rate	3.7%
Expected volatility	46.8%
Expected life in years	4.0

9. Exchangeable Shares

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Two shares of special voting stock of Veritas DGC Inc. are authorized and outstanding, each as a series of common shares. One special voting share was issued in connection with the combination of Digicon Inc. (Veritas DGC Inc.'s former name) and Veritas Energy Services Inc. in August of 1996. The other special voting share was issued in connection with the combination of Veritas DGC Inc., Veritas Energy Services and Enertec Resources Inc. in September 1999.

These special voting shares possess a number of votes equal to the number of outstanding Veritas Energy Services exchangeable shares and Veritas Energy Services Class A exchangeable shares, Series 1 that are not owned by Veritas DGC Inc. or any of its subsidiaries. Such exchangeable shares were issued to the former stockholders of Veritas Energy Services and Enertec Resources in business combinations with Veritas DGC Inc. In any matter submitted to Veritas DGC Inc. stockholders for a vote, each holder of a Veritas Energy Services exchangeable share has the right to instruct a trustee as to the manner of voting for one of the votes comprising the Veritas Energy Services special voting share for each Veritas Energy Services exchangeable share owned by the holder. Likewise, each holder of a Veritas Energy Services class A exchangeable share, series 1 has the right to instruct a trustee as to the manner of voting for one of the votes comprising the Enertec special voting share for each Veritas Energy

Services Class A exchangeable shares, Series 1 owned by the holder. The Veritas Energy Services exchangeable shares and the Veritas Energy Services Class A exchangeable shares, Series 1 are convertible on a one-for-one basis into shares of the common stock and, when coupled with the voting rights afforded by the special voting shares, have rights virtually identical to Veritas DGC Inc. common stock. As a result, we treat the exchangeable shares as shares of our common stock for all purposes, including the calculation of earnings per share information.

In January 2006, it was announced that Veritas Energy Services has accelerated the automatic redemption date of its exchangeable shares and its class A exchangeable shares, series 1 to May 16, 2006, and that Veritas DGC has exercised its right to redeem both classes of Veritas Energy Services exchangeable shares. On May 16, 2006, the closing date, each exchangeable share of both classes then outstanding was exchanged for one share of Veritas DGC common stock. Following the redemption on May 16, Veritas DGC owned all of the issued and outstanding shares of Veritas Energy Services. Therefore, after May 16, 2006, we now have only one class of stock outstanding.

10. Subsequent Events

Selling of land seismic acquisition business

We announced on June 1, 2006 that we entered into a letter of intent with Matco Capital Ltd. to sell our land seismic acquisition business for an undisclosed consideration.

In fiscal year 2005 the land seismic acquisition business of Veritas generated approximately US \$140 million of revenue, or approximately 22 percent of the consolidated revenue of Veritas. The closing is expected to occur in the summer of 2006 and is contingent upon reaching a definitive agreement as well as receipt of regulatory and other approvals.

Texas franchise tax

On May 18, 2006, a new tax reform measure was signed into law that substantially revises the Texas state franchise tax. We believe this new legislation is an income tax to be accounted for in accordance with FASB Statement No. 109, Accounting for Income Taxes. We are currently evaluating the impact this will have on our financial statements.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations 58

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This report on Form 10-Q and the documents incorporated by reference contain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include statements incorporated by reference to other documents we file with the SEC. Forward-looking statements include, among other things, business strategy and expectations concerning industry conditions, market position, future operations, margins, profitability, liquidity and capital resources. Forward-looking statements generally can be identified by the use of terminology such as may, will, expect, intend, estimate, anticipate or believe or similar expressions or the negatives thereof. These expectations are based on management's assumptions and current beliefs based on currently available information. Although we believe that the expectations reflected in such statements are reasonable, we can give no assurance that such expectation will be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report on Form 10-Q. Our operations are subject to a number of uncertainties, risks and other influences, many of which are outside our control, and any one of which, or a combination of which, could cause our actual results of operations to differ materially from the forward-looking statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in Risk Factors and elsewhere in our Annual Report on Form 10-K.

Overview

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We believe that global exploration for oil and gas is increasing worldwide in key basins of interest. While seismic has traditionally been used purely as an exploration tool, we are also seeing growing interest in new seismic reservoir imaging techniques, such as wide azimuth acquisition, which offers better delineation of complex structures and may advance the use of seismic in hydrocarbon production. We believe all of this is promising for our business, although seismic spending will undoubtedly continue to fluctuate.

Our overall performance for the nine months ended April 30, 2006 is the result of being well positioned to take advantage of the increased exploration and reservoir delineation spending. This positioning includes having quality multi-client data in areas of current customer interest, data processing abilities that enable us to produce the highest quality seismic images, and field operations that are capable of providing technical as well as health, safety and environmental excellence.

The particularly strong performance of our land multi-client and contract business in North America provides a solid indicator of our customers renewed interest and increased exploration activity in the mature Canadian and US markets.

Due to our sales and operational efforts and the robust seismic market, our backlog was \$460 million on April 30, 2006, compared to \$474 million at January 31, 2006 and \$234 million at April 30, 2005. We expect that approximately 90% of our April 30, 2006 backlog will be completed during the next twelve months.

We have organized the company into four reportable segments: North and South America (NASA); Europe, Africa, Middle East and Commonwealth of Independent States (EAME); Asia Pacific (APAC); and Veritas Hampson-Russell (VHR). In NASA, EAME and APAC, we conduct geophysical surveys on both a contract and a multi-client basis. When we conduct surveys on a contract basis, we acquire and process data for a single client who pays us to conduct the survey and owns the data we acquire. When we conduct surveys on a multi-client basis, we acquire and process data for our own account and license that data and associated products to multiple clients. NASA, EAME and APAC offer a common suite of these products and services to their customers, although each product or service may be adapted to meet the needs of the local markets. VHR licenses geophysical software and provides geophysical reservoir consulting services. The results of VHR's operations were previously included in those of the NASA region; however, beginning in fiscal 2006, senior management began to review the results of VHR separately. This segmentation of our company is representative of the manner in which it is viewed and managed by our senior managers and our Board of Directors. The information related to the three and nine months ended April 30, 2005 has been restated to reflect the new segment structure.

Results of operations

Three months ended April 30, 2006 compared with three months ended April 30, 2005

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Revenue. Our revenue increased by 35% from \$175.5 million in the third quarter of fiscal 2005 to \$236.2 million in the third quarter of fiscal 2006.

Multi-client revenue in the third quarter of fiscal 2006 of \$88.8 million increased \$41.2 million, or 86%, compared to the prior year's third fiscal quarter. Increased revenues were driven by continued strengthening of interest in the Gulf of Mexico and especially strong marine data library sales in Brazil.

Contract revenue in the third quarter of fiscal 2006 increased \$19.5 million, or 15%, from the prior year's third fiscal quarter. While market conditions continue to improve and strengthen our business worldwide, we saw much of the increase in this fiscal quarter from land acquisition work in Canada and Alaska as well as increased processing revenue across all geographic divisions. The marine acquisition revenue remained strong considering the prior year third quarter had a significant wide azimuth project in the Gulf of Mexico.

The NASA segment was the primary contributor to the higher revenue. This increase was driven by increased marine multi-client library data sales related to the Brazil and the Gulf of Mexico areas. The increase also came from land acquisition work in Canada and Alaska. The revenue in the Asia Pacific segment decreased from the prior year third quarter primarily due to maintenance work and vessel downtime during the current quarter.

Revenues by contract type were as follows:

	Three Months Ended April 30,			
	2006	2005	\$	Change
	(Dollars in thousands)			
Multi-Client:				
Land	\$ 12,713	\$ 10,291	\$ 2,422	24%
Marine	76,132	37,359	38,773	104%
Total Multi-Client	88,845	47,650	41,195	86%
Contract:				
Land	75,167	56,981	18,186	32%
Marine	72,207	70,879	1,328	2%
Total Contract	147,374	127,860	19,514	15%
Total Revenue	\$ 236,219	\$ 175,510	\$ 60,709	35%

Revenues from our operating segments were as follows:

	For the Three Months Ended April 30,			
	2006	2005	\$	Change
	(Dollars in thousands)			
NASA	\$ 172,557	\$ 111,007	\$ 61,550	55%
EAME	31,246	30,636	610	2%
APAC	27,366	29,396	(2,030)	(7)%
VHR	5,050	4,471	579	13%
Total Revenue	\$ 236,219	\$ 175,510	\$ 60,709	35%

Operating income. Operating income increased \$19.4 million, or 66%, compared to the prior year's third fiscal quarter primarily due to improved revenue and pricing in both our multi-client and contract business. The strongest areas were in land acquisition and processing work. Operating margin as a percent of revenue increased from 17% in the prior year's third fiscal quarter to 21% in the current year's third fiscal quarter.

General and administrative expenses increased \$2.5 million from the prior year's third fiscal quarter primarily due to share-based employee compensation expense resulting from the adoption of new accounting rules, severance

costs and increased provision for performance-based incentive compensation.

Interest expense. Interest expense increased by \$0.9 million from the prior year's third fiscal quarter as a result of increases in the interest rate on the \$155.0 million convertible debt.

Interest income. Interest income increased approximately \$1.7 million compared to the prior year's third fiscal quarter due to higher interest rates and a higher cash balance.

Other income (expense), net. Other income and expense, net primarily consists of foreign exchange losses of \$0.7 million in the third quarter of fiscal 2006. For third quarter of fiscal 2005, other income and expense, net consists of \$0.3 million of foreign exchange gains and other miscellaneous gains of \$0.6 million.

Income taxes. The company's effective tax rate for the quarter ended April 30, 2006 was 33.2%, which is slightly lower than the 35% U.S. statutory rate. The current quarter tax rate is lower than the prior year's third quarter rate of 39.8% primarily because of favorable adjustments recorded in the current quarter relating to the filing of certain prior year tax returns.

Nine months ended April 30, 2006 compared with nine months ended April 30, 2005

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Revenue. Our revenue increased by 29% from \$497.3 million in the first nine months of fiscal 2005 to \$643.8 million in the first nine months of fiscal 2006.

Multi-client revenue in the first nine months of fiscal 2006 of \$286.4 million increased \$106.0 million, or 59%, compared to the prior fiscal year's first nine months. Both land and marine revenue improved primarily as a result of strong sales of land surveys in Canada and marine data library sales in Brazil and the Gulf of Mexico.

Contract revenue in the first nine months of fiscal 2006 of \$357.4 million increased \$40.5 million, or 13%, compared to the prior fiscal year's first nine months. Both land and marine revenue improved primarily due to increased activity in Canada and the Asia Pacific region. Processing work also had improvements in revenue across all geographic segments. Revenue increases were partially offset by a revenue decrease in marine acquisition in NASA due to a significant wide azimuth project in the Gulf of Mexico in the third quarter of fiscal 2005 and the allocation of vessels to multi-client library projects during fiscal 2006.

Our NASA and APAC regions contributed the largest revenue increases on a segment basis. Growth in NASA was due to increased multi-client activity in Canada, Brazil and the Gulf of Mexico. For the first nine months in fiscal 2006, APAC has benefited from higher activity in the marine contract business.

Revenues by contract type were as follows:

	Nine Months Ended April 30,		Change	
	2006	2005	\$	%
	(Dollars in thousands)			
Multi-Client:				
Land	\$ 85,693	\$ 36,303	\$ 49,390	136%
Marine	200,691	144,110	56,581	39%
Total Multi-Client	286,384	180,413	105,971	59%
Contract:				
Land	156,359	133,965	22,394	17%
Marine	201,014	182,941	18,073	10%
Total Contract	357,373	316,906	40,467	13%
Total Revenue	\$ 643,757	\$ 497,319	\$ 146,438	29%

Revenues from our operating segments were as follows:

	For the Nine Months Ended April 30,			
	2006	2005	Change	
		(Dollars in thousands)	\$	%
NASA	\$ 445,541	\$ 318,527	\$ 127,014	40%
EAME	99,705	95,486	4,219	4%
APAC	83,882	71,497	12,385	17%
VHR	14,629	11,809	2,820	24%
Total Revenue	\$ 643,757	\$ 497,319	\$ 146,438	29%

Operating income. Operating income increased \$54.4 million, or 82%, from the first nine months of fiscal 2005 to \$120.4 million in the first nine months of fiscal 2006. This increase was primarily due to improvements in both revenue and margins across our multi-client and contract business. Margin increases were primarily due to the multi-client sales in NASA in Canada, Brazil and the Gulf of Mexico as well as an increase in marine contract work in the APAC region and land contract work primarily in Canada.

General and administrative expenses increased \$7.9 million from the prior fiscal year's first nine months due to share-based employee compensation expense of approximately \$2.5 million resulting from the adoption of SFAS 123R as well as severance costs, higher professional fees and increased provision for performance-based incentive compensation.

Interest expense. Interest expense increased by \$2.3 million from the prior fiscal year's first nine months as a result of the increase in the LIBOR applicable to the \$155 million convertible debt.

Interest income. Interest income increased \$4.5 million compared to the prior year's first nine months primarily due to a higher interest rates and a higher cash balance.

Gain on involuntary conversion of assets. The company recognized a pre-tax insurance gain of \$2.0 million in the first quarter of fiscal 2006 related to insurance settlements for the equipment loss on the Veritas Viking experienced in the second quarter of fiscal year 2005.

Other income (expense), net. Other income and expense, net consists of foreign exchange losses of \$1.0 million and other miscellaneous gains of \$1.0 million for the nine months ended April 30, 2006. For the nine months ended April 30, 2005, other income and expense, net consisted of other miscellaneous gains of \$0.9 million.

Income taxes. The company's effective tax rate for the nine months ended April 30, 2006 was 39.3%, which is higher than the 35% U.S. statutory rate. Substantially all of this higher tax rate was attributable to non-U.S. activities. The effective tax rate for the prior year's first nine months of 45.4% was higher than the current year tax rate due to the company's inability to record in the prior year the benefit of certain deferred tax assets, and favorable adjustments recorded in the current quarter relating to the filing of certain prior year tax returns. However, during the fourth fiscal quarter of 2005, we concluded that valuation allowances recorded against deferred tax assets in certain jurisdictions were no longer necessary, resulting in a net tax benefit in fiscal 2005.

Liquidity and capital resources

Cash flow and liquidity

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Our internal sources of liquidity are cash on hand and cash flow from operations. External sources include our existing credit facilities, public financing, equity sales, equipment financing, and trade credit. We believe that our current cash balance and cash flow from operations will be adequate to meet our liquidity needs over the next twelve months. We expect to continue to increase our cash balance during the remainder of fiscal 2006.

Net cash provided by operating activities was \$235 million for the first nine months of fiscal 2006, which is a slight decrease compared to the first nine months of fiscal 2005 due to the changes in working capital items. Net cash used by investing activities increased to \$134 million in the first nine months of fiscal 2006 from \$120 million in the first nine months of fiscal 2005 primarily due to increased multi-client library expenditures. Our currently projected cash investments for fiscal 2006 include capital expenditures to replace and upgrade existing equipment of approximately \$70 to \$75 million and investment in our data library of approximately \$170 to \$180 million. We expect to fund the remainder of these investments from our current cash on hand and from internally generated funds.

As of the beginning of the second quarter of fiscal 2006, the Convertible Senior Notes were convertible as the stock price remained greater than 120% of the Conversion Price for at least 20 trading days in the period of 30 consecutive trading days ending on October 31, 2005. The notes continued to be convertible as of April 30, 2006. However, we do not expect any of the debt to be converted during fiscal 2006. As of April 30, 2006, we had an adequate amount of cash to fund the conversion of the notes which would require a payment of the entire principal amount had all of the notes been converted on that date.

While we believe that we have adequate sources of funds to meet our liquidity needs even if we were required to fund the conversion of the notes, our ability to meet our obligations depends on our future performance, which is subject to many factors beyond our control. Key factors affecting future results include utilization levels of acquisition and processing assets and demand for multi-client library surveys, all of which are driven by our customers' exploration spending and, ultimately, the underlying commodity prices.

In March 2006, we entered into an agreement with another company to charter a seismic vessel which is to be newly constructed. The time charter is for a period of 8 years fixed, with options of up to 10 more years. When delivered in February 2007, the vessel will be the seventh seismic vessel in our fleet. In addition to the charter, we are committed to invest approximately \$62 million to equip the vessel for seismic operations. Of this expected total, approximately \$6 million is expected to be spent during the fiscal year ending July 31, 2006 and the remainder is expected to be spent during the fiscal year ending July 31, 2007.

We have also entered into a commitment to purchase approximately \$26 million of recording equipment to upgrade a vessel in our existing fleet. Substantially all of this amount will be spent during the fiscal year ending July 31, 2007.

Debt structure

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As of April 30, 2006, our notes payable consisted of \$155.0 million of Convertible Senior Notes due 2024. These notes are classified as a current liability as of April 30, 2006 because the conversion feature discussed below results in the notes being convertible at the option of the holders.

The Convertible Senior Notes bear interest at a per annum rate which equals the three-month LIBOR rate, adjusted quarterly, minus a spread of 0.75%. The interest rate of the notes, from March 15, 2006 through June 14, 2006, is 4.16%, based on a LIBOR rate of 4.91%. For the third quarter of fiscal 2006, the weighted average interest rate on the notes was 3.96%. The notes will mature on March 15, 2024 and may not be redeemed by us prior to March 20, 2009. Holders of the notes may require us to repurchase some, or all, of the notes on March 15, 2009, 2014 and 2019. They could also require repurchase upon a change of control (as defined in the indenture under which the Convertible Senior Notes were issued).

Under certain circumstances and at the option of the holder, the Convertible Senior Notes are convertible prior to the maturity date into cash and shares of our common stock. Certain of these circumstances may result in classification of the Convertible Senior Notes as current on our balance sheet. These circumstances include:

1. the closing sale price of our common stock is over 120% of the conversion price, which is currently \$24.03 (with 120% being \$28.84) for 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the fiscal quarter preceding the quarter in which the conversion occurs;
2. if we called the notes for redemption and the redemption has not occurred;

3. the occurrence of a five consecutive trading day period in which the trading price of the notes was less than 95% of the closing sale price of our common stock on such day multiplied by the conversion ratio; or
4. the occurrence of specified corporate transactions.

Should any of these circumstances occur, the Convertible Senior Notes would be convertible at the then current stock price times the conversion ratio of 41.6146. This amount would be payable in cash equal to the principal amount of the notes, the par value adjusted for dividends or other equity transactions, and the additional amount payable in shares of our common stock. Currently, the maximum amount payable by us on conversion is \$155 million in cash plus approximately 6.5 million shares. This settlement method is prescribed in the indenture and is not at the discretion of any party. The shares issuable from such conversion are considered in the calculation of diluted earnings per share.

As of the beginning of the second fiscal quarter of 2006, the Convertible Senior Notes were convertible as the stock price remained greater than 120% of the Conversion Price for at least 20 trading days in the period of 30 consecutive trading days ending on October 31, 2005. The notes continued to be convertible as of April 30, 2006. Because of the convertibility, the notes have been classified as a current liability on our consolidated balance sheet as of April 30, 2006. The determination of the convertibility of the notes occurs quarterly. Depending upon the common stock price in the future, the notes may not be convertible in future quarters and therefore would not be classified as current on our consolidated balance sheet. Assuming a stock price of \$47.92 (which was the closing stock price on the last business day of the quarter ended April 30, 2006), conversion of all the notes would result in our payment of \$155 million in cash and 3.2 million shares of common stock.

In connection with our issuance of the Convertible Senior Notes, we entered into a registration rights agreement pursuant to which we agreed to register the resale of the notes and underlying common stock by the holders thereof. Under the terms of that registration rights agreement, we were required to file a shelf registration statement for the notes and underlying common stock within an agreed amount of time and thereafter to keep it current or useable for two-year period ending in March 2006. If we failed to file or keep the shelf registration statement related to this debt effective or usable in accordance with the registration rights agreement, then, subject to certain exceptions, we were required to pay liquidated damages to all holders of notes and all holders of our common stock issued upon conversion of the notes. The liquidated damages to be paid were equal to an annual rate of 0.50% of the principal amount. In November 2005, the shelf registration statement became no longer effective and, accordingly, we began accruing and paying liquidated damages at approximately \$2,100 per day. For the nine months ended April 30, 2006, we have recorded and paid approximately \$310,000 of expense related to these liquidated damages. We are not required to register the resale of the notes and underlying common stock after March 10, 2006 and therefore, our liability for the payment of liquidated damages ended on that date.

In addition to the notes, we also have a five-year \$85 million revolving loan agreement with a syndicate of banks. We entered into this facility in February 2006. The facility provides for revolving loans and the issuance of letters of credit to Veritas DGC Inc. and certain of its subsidiaries of up to \$45 million in the United States, \$15 million in Canada, \$15 million in Singapore and \$10 million in the United Kingdom. As of April 30, 2006, there were no borrowings and \$19.6 million of outstanding letters of credit, leaving \$65.4 million available under the revolving loan facility. This new credit facility replaced our previous credit facility that consisted primarily of a revolving loan facility.

The facility is secured by pledges of accounts receivable and the U.S. land data library, which, when added together, have a carrying amount of approximately \$230 million as of April 30, 2006. The facility is also secured by certain intercompany notes and stock in certain Veritas subsidiaries. Veritas and certain of its subsidiaries have also issued loan guarantees with respect to certain borrowings. Interest rates on borrowings under the facility are selected by the borrower at the time of any advance and the rates so selected may be either at LIBOR plus 1.00% or the Base Rate (defined as the lesser of the applicable prime rate or the federal funds rate). These rates may be adjusted upward depending upon our leverage ratio (calculated as a ratio of funded debt versus EBITDA for the previous four quarters) to a maximum of LIBOR

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plus 1.50% or the base rate plus 0.50%. The loan agreement and related documents contain customary financial covenants and default provisions. These covenants contain certain financial

measurements as of quarter ending dates, and, as of our last fiscal quarter ended April 30, 2006, we were in compliance with these covenants.

We also have various unsecured lines of credit, with lending institutions that operate in geographic areas not covered by the lending institutions in our credit facility, totaling \$8.5 million that may be used exclusively for the issuance of letters of credit and bank guarantees. As of April 30, 2006, \$1.6 million in letters of credit were outstanding under these lines.

Recent Accounting Pronouncements

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In December 2004, the FASB issued FASB Staff Position No. 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, which provides guidance on the recently enacted American Jobs Creation Act of 2004 (the Act). The Act provides a tax deduction for income from qualified domestic production activities. FSP 109-1 provides for the treatment of the deduction as a special deduction as described in SFAS No. 109. Accordingly, we will record the amount of any special deductions in the years they are taken.

In December 2004, the FASB issued FASB Staff Position No. 109-2, Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004, which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Act on a company's income tax expense and deferred tax liability. FSP 109-2 states that a company is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The company has not yet decided on whether, and to what extent, we might elect to repatriate foreign earnings under the provisions in the Act. Any such repatriation under the Act must occur by July 31, 2006. Accordingly, Veritas consolidated financial statements do not reflect a provision for taxes related to this election.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29, to address the measurement of exchanges of nonmonetary assets. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement was adopted by the company beginning August 1, 2005. The adoption of this statement had no impact on the company's financial statements and is not expected to have a material impact on future financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS No. 154 is not expected to have a material impact on the company's financial statements.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 150. SFAS No. 155 (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (b) clarifies that certain instruments are not subject to the requirements of SFAS 133, (c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that may contain an embedded derivative requiring bifurcation, (d) clarifies what may be an embedded derivative for certain concentrations of credit risk and (e) amends SFAS 140 to eliminate certain prohibitions related to derivatives on a qualifying special-purpose entity. SFAS 155 is effective for us for the fiscal year beginning August 1, 2007. The implementation of SFAS No. 155 is not expected to have a material impact on the company's financial statements.

Critical accounting policies

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As of August 1, 2005, we adopted the Financial Accounting Standard Board Statement No. 123(R) (SFAS 123R) to account for stock based employee compensation. SFAS 123R requires us to record the cost of stock options and other equity-based compensation in our income statement based upon the estimated fair value of those awards. We elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options and other equity-based compensation beginning in the first quarter of adoption. For all unvested options outstanding as of August 1, 2005, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, will be recognized in the statement of operations over the remaining vesting period. For equity-based compensation granted subsequent to August 1, 2005, compensation expense, based on the fair value on the date of grant, will be recognized in the statement of operations over the vesting period. Determining the fair value of stock based awards at the grant date requires judgment, including estimating the expected term of stock options, the expected volatility of our stock and the amount of stock options to be forfeited. If actual results differ significantly from these estimates, stock based compensation expense and the results of operations could be materially impacted.

While all of our accounting policies are important in assuring that we adhere to current accounting standards, certain policies are particularly important due to their impact on our financial statements. In addition to the accounting policy related to stock based compensation discussed above, the remaining critical accounting policies are described in detail in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Significant Accounting Policies included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2005, which description is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk

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As of April 30, 2006, we had \$155.0 million in Convertible Senior Notes bearing interest at LIBOR less 0.75% with a fair value of \$323 million, based upon the bid price of 208.64 on April 30, 2006. These notes are not hedged and represent our total exposure to interest rate risk. Each 100 basis point increase in the LIBOR rate will increase our interest expense by \$1.6 million per year.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as to the effectiveness, design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934) as of April 30, 2006. The evaluation considered the procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported in the time periods specified in the rules and forms of the Securities and Exchange Commission and communicated to our management as appropriate to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as of April 30, 2006.

Changes in Internal Control over Financial Reporting

During the third quarter of fiscal 2006, we did not make any change to our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6.

Exhibits

Exhibits filed with this report:

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Exhibit

No.	Description
*31.1	Certification pursuant to Section 302 of the Sarbanes- Oxley Act of 2002 by Chief Executive Officer.
*31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.
**32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
**32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer.

* filed herewith

** furnished herewith

Signatures

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 6th day of June 2006.

VERITAS DGC INC.

By:

/s/ MARK E. BALDWIN

Mark E. Baldwin

Executive Vice President, Chief Financial Officer and
Treasurer

(Principal Financial Officer)

/s/ DENNIS S. BALDWIN

Dennis S. Baldwin

Vice President, Corporate Controller

(Chief Accounting Officer)