

TILLY'S, INC.  
Form 8-K  
March 19, 2014

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

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the**  
**Securities Exchange Act of 1934**

**Date of Report (Date of Earliest Event Reported) March 17, 2014**

**TILLY S, INC.**

**(Exact Name of Registrant as Specified in its Charter)**

**Delaware**  
**(State of**  
  
**Incorporation)**

**1-35535**  
**(Commission**  
  
**File Number)**  
**10 Whatney**

**45-2164791**  
**(IRS Employer**  
  
**Identification Number)**

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**Irvine, California 92618**

**(Address of Principal Executive Offices) (Zip Code)**

**(949) 609-5599**

**(Registrant's Telephone Number, Including Area Code)**

**N/A**

**(Former Name or Former Address, if Changed Since Last Report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 1.01 Entry into a Material Definitive Agreement.**

On March 17, 2014, World of Jeans & Tops, a California corporation and a wholly owned subsidiary of Tilly's, Inc., a Delaware corporation, entered into an amendment (the Amendment) to the amended and restated credit agreement (the Agreement), dated as of May 3, 2012, with Wells Fargo Bank, National Association. Among other things, the Amendment extends the maturity date of the Agreement from May 3, 2014 to May 31, 2017, reduces the borrowing rate that is tied to the London Interbank Offered Rate (LIBOR) from LIBOR plus 1.75% to LIBOR plus 1.0% and eliminates a fee of 0.10% on the average daily unused amount on the line of credit. The Amendment also eliminates certain financial covenants related to current liabilities, funded debt and net profits, and adds certain new covenants relating to total net losses and maximum balance sheet leverage.

The foregoing summary does not purport to be complete and is qualified in its entirety by reference to the Amendment, a copy of which is attached hereto as Exhibit 10.1, and is incorporated herein by reference.

**Item 2.02 Results of Operations and Financial Condition.**

On March 19, 2014, Tilly's, Inc. (the Company) issued an earnings press release for the fourth quarter and fiscal year ended February 1, 2014. The press release is furnished as Exhibit 99.1 and is incorporated herein by reference. Exhibit 99.1 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of any general incorporation language in such filing.

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits

Exhibit No.	Exhibit Title or Description
10.1	Amendment No. 1 to Amended and Restated Credit Agreement and Note, dated as of March 17, 2014, by and between World of Jeans & Tops, a California corporation, and Wells Fargo, National Association.
99.1	Press Release of Tilly's, Inc. dated March 19, 2014

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## SIGNATURES

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

TILLY S, INC.

Date: March 19, 2014

By: /s/ Christopher M. Lal

Name: Christopher M. Lal

Title: Vice President, General Counsel and Secretary

So long as no event of default under the indenture has occurred and is continuing, Colonial BancGroup is permitted to defer payments of interest on the junior subordinated debentures by extending the interest payment period from time to time on the junior subordinated debentures. If Colonial BancGroup exercises this extension option, quarterly distributions on the preferred securities would also be deferred during any such extension period. Because interest would continue to accrue on the junior subordinated debentures, any deferred distributions would also continue to accrue with interest (to the extent lawful) at an annual rate equal to 7.875%, compounded quarterly. This right to extend the interest payment period for the junior subordinated debentures is limited to a period not exceeding 20 consecutive quarters, and may not extend beyond the stated maturity date or any earlier redemption date. Upon the termination of any extension period and the payment of all amounts then due, Colonial BancGroup may select a new extension period, subject to the above requirements. See Description of the Junior Subordinated Debentures Interest on page 31 and Option to Extend Interest Payment Period beginning on page 32.

If Colonial BancGroup exercises this deferral right, then during any extension period:

1. Colonial BancGroup will not declare or pay any dividend on, make any distributions or other payment with respect to, or redeem, purchase, acquire, or make a liquidation payment relating to, any of its capital stock other than:

repurchases, redemptions or other acquisitions of shares of capital stock of Colonial BancGroup in connection with any employee benefit plans;

as a result of an exchange or conversion of any class or series of Colonial BancGroup's capital stock for any other class or series of Colonial BancGroup's capital stock; or

the purchase of fractional interests in shares of Colonial BancGroup's capital stock pursuant to the conversion or exchange provisions of that capital stock or the security being converted or exchanged;

2. Colonial BancGroup will not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities issued by Colonial BancGroup which rank equally with or junior to the junior subordinated debentures; and
3. Colonial BancGroup will not make any guarantee payments with respect to the foregoing, other than the guarantee.

If distributions are deferred, the deferred distributions and accumulated but unpaid distributions will be paid to holders of the preferred securities as they appear on the books and records of Colonial Capital Trust IV on the record date following the termination of that extension period.

**Payment and Record Dates**

Colonial Capital Trust IV will pay distributions to the holders of the preferred securities as they appear on the books and records of Colonial Capital Trust IV on the relevant record dates. As long as the preferred

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securities are in book-entry form, the record date will be the close of business on the business day prior to the relevant distributions payment date. If the preferred securities are not in book-entry form, the record date will be the fifteenth calendar day prior to the relevant distributions payment date. The record dates and distributions payment dates for the preferred securities are the same as the record dates and interest payment dates for the junior subordinated debentures.

If Colonial Capital Trust IV does not pay a distribution because Colonial BancGroup fails to make the corresponding interest payment on the junior subordinated debentures, that defaulted distribution will be payable to the person in whose name the preferred security is registered on the special record date established by the regular trustees. This record date will correspond to the special record date or other specified date determined in accordance with the indenture. This means that the defaulted distribution may not be paid to the person in whose name the preferred security is registered on the original record date. However, distributions will not be considered payable on any distributions payment date falling within an extension period unless Colonial BancGroup has elected to make a full or partial payment of interest accrued on the junior subordinated debentures on that distributions payment date.

Colonial Capital Trust IV will pay distributions on the preferred securities through the institutional trustee, who will hold amounts received on the junior subordinated debentures for the benefit of the holders of the trust securities. Subject to any applicable laws and regulations and the provisions of the declaration, each payment of distributions will be made as described under **Book-Entry Only Issuance** **The Depository Trust Company** beginning on page 27.

## **Redemption**

The junior subordinated debentures will be redeemable prior to the stated maturity date at the option of Colonial BancGroup at a redemption price equal to 100% of the principal amount, plus unpaid interest accrued to the date of redemption:

1. in whole or in part, from time to time, on or after October 1, 2008; or
2. at any time prior to October 1, 2008, in whole but not in part, upon the occurrence and continuation of a special event. As explained above, owing to recent accounting developments, it is possible that the trust preferred securities will become ineligible for Tier 1 regulatory capital treatment. This would constitute a special event. See **Risk Factors** beginning on page 7 and **Accounting Treatment** beginning on page 13.

Colonial Capital Trust IV will use the proceeds from any repayment of the junior subordinated debentures on the stated maturity date of October 1, 2033 or earlier redemption to simultaneously redeem trust securities having an aggregate liquidation amount equal to the aggregate principal amount of the junior subordinated debentures so repaid or redeemed. The **redemption price** will be \$25 per trust security plus unpaid distributions to the date of redemption.

Colonial Capital Trust IV must give holders of trust securities not less than 30 nor more than 60 days prior written notice of any redemption prior to the stated maturity date. See **Description of the Junior Subordinated Debentures** **Optional Redemption** beginning on page 35. If fewer than all of the outstanding preferred securities are to be redeemed, Colonial Capital Trust IV will redeem the preferred securities in the manner as described under **Book-Entry Only Issuance** **The Depository Trust Company** beginning on page 27. Any redemption of the junior subordinated debentures by Colonial BancGroup prior to the stated maturity date may require prior approval of the Federal Reserve Board if approval is then required under applicable law, rules, guidelines or policies.

**Redemption Procedures**

Colonial Capital Trust IV may not redeem fewer than all of the outstanding preferred securities unless it has paid all accrued and unpaid distributions on all preferred securities for all quarterly distribution periods terminating on or prior to the date of redemption.

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If Colonial Capital Trust IV gives a notice of redemption of the preferred securities and Colonial BancGroup has paid to Colonial Capital Trust IV a sufficient amount of cash in connection with the related redemption or maturity of the junior subordinated debentures, then on the redemption date:

1. distributions will cease to accrue on the preferred securities called for redemption;
2. the preferred securities called for redemption will no longer be deemed to be outstanding; and
3. all rights of holders of the preferred securities called for redemption will cease, except the right of the holders of those preferred securities to receive the redemption price, but without interest.

Any notice of redemption will be irrevocable. If any date fixed for redemption of preferred securities is not a business day in The City of New York, then payment of the redemption price will be made on the next business day and without any interest or other payment because of the delay. However, if the next business day falls in the next calendar year, the payment will be made on the preceding business day.

If Colonial BancGroup fails to repay junior subordinated debentures on the stated maturity date or on any earlier redemption date or if payment of the redemption price is improperly withheld or refused and not paid by Colonial Capital Trust IV or by Colonial BancGroup under its guarantee, distributions on those preferred securities will continue to accrue to the date of payment. In that case, the actual payment date will be considered the redemption date for purposes of calculating the redemption price.

Colonial Capital Trust IV will not be required to:

1. issue, or register the transfer or exchange of, any trust securities during a period beginning at the opening of business 15 days before the mailing of a notice of redemption of trust securities and ending at the close of business on the day of the mailing of the relevant notice of redemption; and
2. register the transfer or exchange of any trust securities so selected for redemption, in whole or in part, except the unredeemed portion of any trust securities being redeemed in part.

Subject to the foregoing and applicable law, including, without limitation, United States federal securities laws and the regulations of the Federal Reserve Board, Colonial BancGroup or its subsidiaries may at any time, and from time to time, purchase outstanding preferred securities by tender, in the open market or by private agreement.

## **Distribution of the Junior Subordinated Debentures**

Colonial BancGroup will have the right at any time to dissolve Colonial Capital Trust IV and cause the junior subordinated debentures to be distributed to the holders of the trust securities. The exercise of this right is subject to the requirement that Colonial BancGroup receive an opinion of counsel that the dissolution and resulting liquidation of Colonial Capital Trust IV and distribution of the junior subordinated debentures does not result in a taxable event to the holders of the preferred securities. The exercise of this right may also require the prior



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approval of the Federal Reserve Board if approval is then required under applicable law, rules, guidelines or policies. If the junior subordinated debentures are distributed to the holders of the preferred securities, Colonial BancGroup will use its best efforts to cause the junior subordinated debentures to be listed on any exchange on which the preferred securities are then listed.

On the date for any distribution of junior subordinated debentures upon the dissolution and resulting liquidation of Colonial Capital Trust IV:

1. the trust securities will no longer be deemed to be outstanding;
2. DTC or its nominee, if then the record holder of any preferred securities, will receive a global certificate or certificates representing the junior subordinated debentures registered in its name; and

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3. any certificates representing trust securities not held by DTC or its nominee, until those certificates are presented in exchange for the junior subordinated debentures, will be deemed to represent junior subordinated debentures having:

an aggregate principal amount equal to the aggregate liquidation amount of the trust securities;

accrued and unpaid interest equal to accrued and unpaid distributions on, the trust securities; and

terms that match.

Colonial BancGroup and Colonial Capital Trust IV cannot assure you as to the market prices for either the preferred securities or the junior subordinated debentures that may be distributed in exchange for the preferred securities if Colonial Capital Trust IV were to dissolve. Accordingly, the preferred securities or the junior subordinated debentures may trade at a discount to the price paid to purchase the preferred securities offered by this prospectus.

## **Liquidation Distribution Upon Dissolution**

If Colonial Capital Trust IV dissolves for any of the reasons specified below other than clause 8, the trustees will liquidate Colonial Capital Trust IV as quickly as they determine to be possible by distributing to holders of the preferred and common securities, after satisfying the liabilities owed to Colonial Capital Trust IV's creditors, junior subordinated debentures having a principal amount equal to the liquidation amount of the preferred and common securities, unless the institutional trustee determines that this distribution is not practicable. If the institutional trustee determines that this distribution is not practicable, holders of the preferred securities will be entitled to receive out of the assets of Colonial Capital Trust IV, after satisfying the liabilities owed to Colonial Capital Trust IV's creditors, cash distributions in an amount equal to the liquidation amount of \$25 per preferred security plus unpaid distributions accrued to the date of payment, the **liquidation distribution**.

If, upon any dissolution and subsequent liquidation, the liquidation distribution can be paid only in part because Colonial Capital Trust IV does not have sufficient assets to pay in full the entire liquidation distribution, then the amounts payable directly by Colonial Capital Trust IV on the preferred securities will be paid on a pro rata basis.

The holders of the common securities will be entitled to receive distributions upon any dissolution and subsequent liquidation pro rata with the holders of the preferred securities. However, if a declaration event of default has occurred and is continuing, the preferred securities will have a preference over the common securities with regard to those distributions.

Pursuant to the declaration, Colonial Capital Trust IV will dissolve:

1. on April 1, 2034, the expiration of the term of Colonial Capital Trust IV;
2. upon the bankruptcy, insolvency or liquidation of Colonial BancGroup or Colonial Capital Trust IV;

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3. upon the entry of a decree of a judicial dissolution of Colonial BancGroup or Colonial Capital Trust IV;
4. upon the filing of a certificate of dissolution or its equivalent with respect to Colonial BancGroup;
5. upon the consent of the holders of a majority in liquidation amount of the trust securities, voting together as a single class, to dissolve Colonial Capital Trust IV;
6. upon the revocation of Colonial BancGroup's charter and the expiration of 90 days after the date of revocation without the charter being reinstated;
7. upon the distribution of junior subordinated debentures to the holders of the trust securities in accordance with the requirements described in this prospectus; or

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8. upon the redemption of all the trust securities.

### **Declaration Events of Default**

An **indenture event of default** is an event of default under the indenture and also constitutes a **declaration event of default**, which is an event of default under the declaration relating to the trust securities. See **Description of the Junior Subordinated Debentures Indenture Events of Default** beginning on page 37 for a description of indenture events of default.

Under the declaration, the holder of the common securities will be deemed to have waived any declaration event of default relating to the common securities until all declaration events of default relating to the preferred securities have been cured, waived or otherwise eliminated. Until all declaration events of default relating to the preferred securities have been cured, waived or otherwise eliminated, the institutional trustee will be acting solely on behalf of the holders of the preferred securities. Only the holders of the preferred securities will have the right to direct the institutional trustee with respect to certain matters under the declaration, and therefore the indenture. If a declaration event of default relating to the preferred securities is waived by the holders of the preferred securities, the holders of the common securities have agreed that the waiver also constitutes a waiver of the declaration event of default relating to the common securities for all purposes under the declaration without any further act, vote or consent of the holders of the common securities.

If the institutional trustee fails to enforce its rights under the junior subordinated debentures after a holder of preferred securities has made a written request, the holder of preferred securities may, to the fullest extent permitted by law, directly institute a legal proceeding against Colonial BancGroup to enforce those rights without first suing the institutional trustee or any other person or entity. If a declaration event of default has occurred and is continuing and the event is attributable to the failure of Colonial BancGroup to pay interest on or principal of the junior subordinated debentures on the date the interest or principal is otherwise payable, or in the case of redemption, the redemption date, then a holder of preferred securities may also bring a **direct action**. This means that a holder may directly sue Colonial BancGroup to enforce payment of the principal of or interest on the junior subordinated debentures having a principal amount equal to the aggregate liquidation amount of the preferred securities of the holder on or after the respective due date specified in the junior subordinated debentures. The holder need not first (1) direct the institutional trustee to enforce the terms of the junior subordinated debentures or (2) sue Colonial BancGroup to enforce the institutional trustee's rights under the junior subordinated debentures.

In connection with the direct action, Colonial BancGroup, as holder of the common securities, will be subrogated to the rights of the holder of preferred securities under the declaration to the extent of any payment made by Colonial BancGroup to that holder of preferred securities in the direct action, but only after that holder has received full payment in respect of its preferred securities.

Upon the occurrence of an indenture event of default, the institutional trustee, as the sole holder of the junior subordinated debentures, will have the right to take certain actions under the indenture. See **Description of the Junior Subordinated Debentures Indenture Events of Default** beginning on page 37. Colonial BancGroup and Colonial Capital Trust IV are each required to file annually with the institutional trustee an officer's certificate as to its compliance with all conditions and covenants under the declaration.

### **Voting Rights**

Except as described below and under **Modification of the Declaration** on page 26, **Mergers, Consolidations or Amalgamations** beginning on page 26, **Description of the Preferred Securities Guarantee Modification; Assignment** on page 41, and as otherwise required by law and the

declaration, the holders of the preferred securities will have no voting rights.

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The holders of a majority in aggregate liquidation amount of the preferred securities have the right to direct any proceeding for any remedy available to the institutional trustee. These holders also have the right to direct the institutional trustee under the declaration to:

- (1) direct any proceeding for any remedy available to the debt trustee, or exercising any trust or power conferred on the debt trustee;
- (2) waive any past indenture event of default that is waivable under the indenture;
- (3) exercise any right to rescind or annul an acceleration of the maturity of the junior subordinated debentures; or
- (4) consent to any amendment, modification or termination where that consent is required.

A waiver of an indenture event of default by the institutional trustee at the direction of the holders of the preferred securities will constitute a waiver of the corresponding declaration event of default.

Where a consent or action under the indenture would require the consent or act of holders of more than a majority in aggregate principal amount of the junior subordinated debentures, or a **super majority**, then only a super majority may direct the institutional trustee to give that consent or take that action. Where a consent or action under the indenture would require the consent or act of individual holders of the junior subordinated debentures, then only those individual holders may direct the institutional trustee to give that consent or take that action.

The institutional trustee is required to notify all holders of the preferred securities of any notice of default received from the debt trustee. The notice is required to state that the indenture event of default also constitutes a declaration event of default. Except for directing the time, method and place of conducting a proceeding for any remedy available to the institutional trustee, the institutional trustee will not take any of the actions described in clauses (1), (2), (3) or (4) of the third preceding paragraph unless the institutional trustee receives an opinion of a nationally recognized independent tax counsel. The opinion must state that, taking that action into account, the trust will continue to be classified as a grantor trust for United States federal income tax purposes.

If the consent of the institutional trustee is required under the indenture for any amendment, modification or termination of the indenture, the institutional trustee is required to request the written direction of the holders of the trust securities. In that case, the institutional trustee will vote as directed by a majority in aggregate liquidation amount of the trust securities voting together as a single class. Where any amendment, modification or termination under the indenture would require the consent of a super majority or an individual holder, however, the institutional trustee may only give that consent at the direction of the holders of the same super majority of the holders of the trust securities or that individual holder, as applicable.

Holders of the preferred securities may give any required approval or direction at a separate meeting of holders of preferred securities convened for that purpose, at a meeting of all of the holders of trust securities or by written consent. The regular trustees will mail to each holder of record of preferred securities a notice of any meeting at which those holders are entitled to vote. Each such notice will include a statement setting forth the following information:

the date of the meeting;

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a description of any resolution proposed for adoption at the meeting on which those holders are entitled to vote; and

instructions for the delivery of proxies.

No vote or consent of the holders of preferred securities will be required for Colonial Capital Trust IV to redeem and cancel preferred securities or distribute junior subordinated debentures in accordance with the declaration.

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Despite the fact that holders of preferred securities are entitled to vote or consent under the circumstances described above, holders of any of the preferred securities that are owned at the time by Colonial BancGroup or any entity directly or indirectly controlling or controlled by, or under direct or indirect common control with, Colonial BancGroup, will not be entitled to vote or consent. Instead, these preferred securities will be treated as if they were not outstanding.

Holders of the preferred securities will have no rights to appoint or remove the trustees unless there is an indenture event of default, in which case holders of a majority in liquidation amount of the preferred securities will have the right to remove and appoint the institutional trustee and the Delaware trustee. Otherwise, the trustees may be appointed, removed or replaced solely by Colonial BancGroup as the indirect or direct holder of all of the common securities.

## **Modification of the Declaration**

The declaration may be modified and amended if approved by the regular trustees, and in certain circumstances, the institutional trustee and the Delaware Trustee. However, if any proposed amendment provides for, or the regular trustees otherwise propose to effect:

1. any action that would adversely affect the powers, preferences or special rights of the trust securities, whether by way of amendment to the declaration or otherwise; or
2. the liquidation, dissolution, winding-up or termination of Colonial Capital Trust IV other than pursuant to the terms of the declaration,

then the holders of the trust securities voting together as a single class will be entitled to vote on the amendment or proposal. That amendment or proposal will not be effective except with the approval of a majority in aggregate liquidation amount of the trust securities affected thereby. If, however, any amendment or proposal referred to in clause (1) above would adversely affect only the preferred securities or the common securities, then only holders of the affected class will be entitled to vote on the amendment or proposal. The amendment or proposal will not be effective except with the approval of a majority in aggregate liquidation amount of that class of trust securities.

Despite the foregoing, no amendment or modification may be made to the declaration if the amendment or modification would:

1. cause Colonial Capital Trust IV not to be classified for United States federal income taxation purposes as a grantor trust;
2. reduce or otherwise adversely affect the powers of the institutional trustee; or
3. cause Colonial Capital Trust IV to be deemed an investment company required to be registered under the Investment Company Act.

## **Mergers, Consolidations or Amalgamations**



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Colonial Capital Trust IV may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety, to any corporation or other entity, except as described below or as described in Description of the Junior Subordinated Debentures beginning on page 30. Colonial Capital Trust IV may, with the consent of the regular trustees and without the consent of the holders of the trust securities, the institutional trustee or the Delaware trustee, consolidate, amalgamate, merge with or into, or be replaced by a trust organized as such under the laws of any State of the United States; provided, that:

- (1) if Colonial Capital Trust IV is not the survivor, the successor entity either:
  - (a) expressly assumes all of the obligations of Colonial Capital Trust IV under the trust securities; or

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- (b) substitutes for the trust securities other securities having substantially the same terms as the trust securities, so long as the successor securities rank the same as the trust securities rank regarding distributions and payments upon liquidation, redemption and otherwise;
- (2) Colonial BancGroup expressly acknowledges a trustee of the successor entity possessing the same powers and duties as the institutional trustee, in its capacity as the holder of the junior subordinated debentures;
- (3) the preferred securities or any successor securities are listed, or any successor securities will be listed upon notification of issuance, on any national securities exchange and each other organization, if any, on which the preferred securities are then listed or quoted;
- (4) the merger, consolidation, amalgamation or replacement does not cause the rating of the preferred securities or any successor securities to be downgraded or withdrawn by any nationally recognized statistical rating organization;
- (5) the merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the holders of the trust securities or any successor securities in any material respect, other than with respect to any dilution of the holders interest in the new successor entity;
- (6) the successor entity has a purpose substantially identical to that of Colonial Capital Trust IV;
- (7) after giving effect to the transaction, no event of default and no event which, after notice or lapse of time, or both, would become an event of default, has occurred and is continuing under the indenture;
- (8) prior to the merger, consolidation, amalgamation or replacement, Colonial Capital Trust IV has received an opinion of a nationally recognized independent counsel to Colonial Capital Trust IV experienced in those matters that:
  - (a) the merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the holders of the trust securities or any successor securities in any material respect, other than with respect to any dilution of the holders interest in the new successor entity;
  - (b) following the merger, consolidation, amalgamation or replacement, neither Colonial Capital Trust IV nor the successor entity will be required to register as an investment company under the Investment Company Act; and
  - (c) following the merger, consolidation, amalgamation or replacement, Colonial Capital Trust IV or, if applicable, the successor entity will be treated as a grantor trust for United States federal income tax purposes; and
- (9) Colonial BancGroup guarantees the obligations of the successor entity under the successor securities at least to the extent provided by the guarantee.

Despite the foregoing, Colonial Capital Trust IV will not, except with the consent of holders of 100% in aggregate liquidation amount of the trust securities, consolidate, amalgamate, merge with or into, or be replaced by, any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it, if the consolidation, amalgamation, merger or replacement would cause Colonial Capital Trust IV or, if applicable, the successor entity not to be classified as a grantor trust for United States federal income tax purposes.

**Book-Entry Only Issuance The Depository Trust Company**

Upon issuance, all preferred securities, **book-entry securities**, will be represented by one or more fully registered global certificates, **global securities**. Each global security will be deposited with, or on behalf of, DTC and will be registered in the name of DTC or a nominee of DTC. DTC will thus be the only registered

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holder of the preferred securities and will be considered the sole owner of the preferred securities for purposes of the declaration.

Purchasers of book-entry securities may only hold interests in the global securities through DTC if they are a participant in the DTC system. Purchasers may also hold interests through a securities intermediary banks, brokerage houses and other institutions that maintain securities accounts for customers that has an account with DTC or its nominee. DTC will maintain accounts showing the preferred security holdings of its participants, and these participants will in turn maintain accounts showing the preferred security holdings of their customers. Some of these customers may themselves be securities intermediaries holding preferred securities for their customers. Thus, each beneficial owner of an interest in a global security will hold that interest indirectly through a hierarchy of intermediaries, with DTC at the top and the beneficial owner's own securities intermediary at the bottom.

Each beneficial owner's interest in a global security will be evidenced solely by entries on the books of the beneficial owner's securities intermediary. The actual purchaser of the book-entry securities will generally not be entitled to have the preferred securities represented by the global securities registered in its name and will not be considered the owner under the declaration. In most cases, a beneficial owner will also not be able to obtain a paper certificate evidencing the holder's ownership of preferred securities. The book-entry system for holding preferred securities eliminates the need for physical movement of certificates. However, the laws of some jurisdictions require some purchasers of securities to take physical delivery of their securities in definitive form. These laws may impair the ability to transfer book-entry securities.

A beneficial owner of an interest in a global security may exchange the securities for definitive (paper) securities only if:

- (1) DTC is unwilling or unable to continue as depository for the global preferred security and Colonial BancGroup is unable to find a qualified replacement for DTC within 90 days;
- (2) at any time DTC ceases to be a clearing agency registered under the Securities Exchange Act of 1934;
- (3) Colonial BancGroup in its sole discretion decides to allow all book-entry securities represented by global securities to be exchangeable for definitive securities in registered form; or
- (4) a declaration event of default has occurred and is continuing.

Any global security that is so exchangeable will be exchangeable for definitive securities in registered form, with the same terms and of an equal aggregate principal amount, in denominations of \$25 and whole multiples of \$25. Definitive securities will be registered in the name or names of the person or persons specified by DTC in a written instruction to the registrar of the securities. DTC may base its written instruction upon directions it receives from its participants.

In this prospectus, for book-entry securities, references to actions taken by preferred security holders will mean actions taken by DTC upon instructions from its participants, and references to payments and notices of redemption to preferred security holders will mean payments and notices of redemption to DTC as the registered holder of the preferred securities for distribution to participants in accordance with DTC's procedures.

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DTC has advised Colonial Capital Trust IV and Colonial BancGroup that its current practice, upon receipt of any payment on the preferred securities, is to credit the accounts of the relevant participants with the payment on the payment date, in amounts proportionate to their respective holdings in liquidation amount of the preferred securities as shown on the records of DTC unless DTC has reason to believe it will not receive payment on the payment date. Payments by participants and indirect participants to the beneficial owners of preferred securities will be governed by standing instructions and customary practices and will be the responsibility of participants or indirect participants and will not be the responsibility of DTC, the institutional trustee, Colonial Capital Trust IV

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or Colonial BancGroup. None of Colonial Capital Trust IV, Colonial BancGroup or the institutional trustee will be liable for any delay by DTC or any of its participants or indirect participants in identifying the beneficial owners of the preferred securities, and Colonial BancGroup, Colonial Capital Trust IV and the institutional trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee for all purposes.

If applicable, redemption notices shall be sent to Cede & Co. If less than all of the book-entry securities are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in such issue to be redeemed.

DTC has advised us that DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under section 17A of the Securities Exchange Act of 1934. The rules applicable to DTC and its participants are on file with the SEC.

None of Colonial Capital Trust IV, Colonial BancGroup or the institutional trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the global securities or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Colonial BancGroup, Colonial Capital Trust IV and the underwriters believe to be reliable, but none of Colonial BancGroup, Colonial Capital Trust IV or the underwriters take responsibility for the accuracy of that information.

## **Payment**

Payments on the preferred securities represented by the global certificates will be made to DTC, which will credit the relevant accounts at DTC on the applicable distributions payment dates. In the case of preferred securities in definitive form, payments of interest will be made by check mailed to the address of the holder as that address appears on the records of registrar and transfer agent. However, payments on the stated maturity date or earlier redemption date will be made in same-day funds against surrender of the related preferred securities.

## **Registrar, Transfer Agent And Paying Agent**

If the preferred securities do not remain in book-entry only form, the following provisions will apply:

- (1) the institutional trustee will act as paying agent and may designate an additional or substitute paying agent at any time; and
- (2) registration of transfers of preferred securities will be effected without charge by or on behalf of Colonial Capital Trust IV, but upon payment, with the giving of such indemnity as Colonial Capital Trust IV or Colonial BancGroup may require, in respect of any tax or other government charges that may be imposed in relation to it.

**Information Concerning the Institutional Trustee**

Prior to the occurrence of a default with respect to the trust securities and after the curing of any defaults that may have occurred, the institutional trustee is required to perform only such duties as are specifically set forth in the declaration. After such a default, the institutional trustee is required to exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. The institutional trustee is under no obligation to exercise any of the powers vested in it by the declaration at the request of any holder of

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preferred securities, unless offered indemnity reasonably satisfactory to it by the holder against the costs, expenses and liabilities that the institutional trustee might incur by exercising those powers. The holders of preferred securities will not be required to offer that indemnity if the holders, by exercising their voting rights, direct the institutional trustee to take any action following a declaration event of default.

The institutional trustee also serves as trustee under the guarantee and the indenture. Colonial BancGroup and certain of its subsidiaries conduct certain banking transactions with the institutional trustee in the ordinary course of their business.

## **Common Securities**

In connection with the issuance of preferred securities, Colonial Capital Trust IV will issue common securities with terms, other than voting rights, that are substantially identical to the terms of the preferred securities. The common securities will rank equally, and payments will be made on the common securities pro rata, with the preferred securities. However, upon the occurrence of a declaration event of default, the rights of the holders of the common securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the preferred securities. Except in limited circumstances, the common securities carry the right to vote to appoint, remove or replace any of the trustees. All of the common securities will be directly or indirectly owned by Colonial BancGroup.

## **Miscellaneous**

The regular trustees are authorized and directed to operate Colonial Capital Trust IV in such a way so that Colonial Capital Trust IV will not be required to register as an investment company under the Investment Company Act and will be characterized as a grantor trust for United States federal income tax purposes. Colonial BancGroup is authorized and directed to conduct its affairs so that the junior subordinated debentures will be treated as indebtedness of Colonial BancGroup for United States federal income tax purposes. In this connection, Colonial BancGroup and the regular trustees are authorized to take any action, not inconsistent with applicable law, the certificate of trust of Colonial Capital Trust IV or the charter of Colonial BancGroup, that each of Colonial BancGroup and the regular trustees determine in their discretion to be necessary or desirable to achieve that end, as long as that action does not adversely affect the interests of the holders of the preferred securities or vary the terms of the preferred securities.

Holders of the preferred securities have no preemptive or similar rights.

## **Governing Law**

The declaration and the preferred securities will be governed by, and construed in accordance with, the laws of the State of Delaware.

## **DESCRIPTION OF THE JUNIOR SUBORDINATED DEBENTURES**



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Colonial BancGroup will issue junior subordinated debentures as a series of debt securities under a base indenture, between Colonial BancGroup and The Bank of New York, as trustee, the **debt trustee**, as supplemented by a supplemental indenture or a resolution of Colonial BancGroup's board of directors or a special committee appointed by the board of directors. The base indenture, as amended or supplemented from time to time is called the **indenture**. The indenture has been qualified as an indenture under the Trust Indenture Act. The debt trustee, The Bank of New York, will act as trustee for the junior subordinated debentures under the indenture for purposes of compliance with the provisions of the Trust Indenture Act. The terms of the junior subordinated debentures will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act.

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Set forth below is a summary of the material terms and provisions of the junior subordinated debentures. This summary is not intended to be complete and is qualified by the indenture, the form of which is filed as an exhibit to the registration statement which contains this prospectus, and by the Trust Indenture Act.

### **General**

The junior subordinated debentures will initially be limited in aggregate principal amount to approximately \$103,092,800. This amount is the sum of the aggregate liquidation amount of the trust securities.

The junior subordinated debentures are not subject to any sinking fund provision. The entire principal amount of the junior subordinated debentures will mature and become due and payable, together with any accrued and unpaid interest thereon, including compound interest, as defined on page 32 under **Option to Extend Interest Payment Period** and additional interest, as defined on page 33 under **Additional Interest**, if any, on October 1, 2033, unless redeemed prior to that date as described under **Optional Redemption** on page 35.

If junior subordinated debentures are distributed to holders of preferred securities upon dissolution and subsequent liquidation of Colonial Capital Trust IV and those preferred securities are represented by global securities, those junior subordinated debentures will initially be represented by one or more global certificates. The depositary arrangements for such junior subordinated debentures are expected to be substantially similar to those currently in effect for the preferred securities. Payments on junior subordinated debentures represented by one or more global certificates will be made to DTC. If junior subordinated debentures are issued in definitive form, those junior subordinated debentures will be in denominations of \$25 and integral multiples of \$25 and may be transferred or exchanged at the offices described below.

In the event junior subordinated debentures are issued in definitive form, principal and interest will be payable, the transfer of the junior subordinated debentures will be registrable and junior subordinated debentures will be exchangeable for junior subordinated debentures of other denominations of a like aggregate principal amount, at the corporate trust office of the debt trustee in The City of New York. At its option, Colonial BancGroup may make payment of interest by check mailed to the address of the holder entitled to that payment. Colonial BancGroup is required to make payments due on the stated maturity date or earlier redemption date in same-day funds against surrender of the related junior subordinated debentures.

If any interest payment date or the stated maturity date or any earlier redemption date is not a business day, then the required payment on such date will be made on the next business day and without any interest or other payment in respect of the delay. However, if the next business day is in the next calendar year, the payment will be made on the preceding business day.

Colonial BancGroup does not intend to issue and sell the junior subordinated debt securities to any purchasers other than Colonial Capital Trust IV.

There are no covenants or provisions in the indenture that would afford the holders of the junior subordinated debentures protection in the event of a highly leveraged or other similar transaction involving Colonial BancGroup that may materially and adversely affect those holders.

**Interest**

The junior subordinated debentures will bear interest at an annual rate of 7.875% from the original date of issuance, payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, commencing January 1, 2004. Each date on which interest is payable is called an **interest payment date**.

Interest will be paid to the person in whose name the junior subordinated debenture is registered on the relevant record date. While the record dates for the junior subordinated debentures represented by one or more

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global certificates will be the close of business on the business day prior to the relevant interest payment date. The record dates for the junior subordinated debentures in definitive form will be the fifteenth calendar day prior to the relevant interest payment date.

The period beginning on and including September 16, 2003 and ending on but excluding the first interest payment date and each successive period beginning on and including an interest payment date and ending on but excluding the next succeeding interest payment date is called an **interest period**.

The amount of interest payable for any interest period will be computed on the basis of a 360-day year of twelve 30-day months. The amount of interest payable for any period shorter than a full quarterly period will be computed on the basis of the actual number of days elapsed in a 30-day month.

### **Option to Extend Interest Payment Period**

So long as no indenture event of default has occurred and is continuing, Colonial BancGroup is permitted to defer interest payments by extending the interest payment period for a period not exceeding 20 consecutive quarterly periods. However, no extension period may extend beyond the stated maturity date of the junior subordinated debentures or any earlier redemption date. If Colonial BancGroup exercises this extension option, interest would continue to accrue on the junior subordinated debentures (to the extent lawful) at an annual rate equal to 7.875%, compounded quarterly. At the end of an extension period, Colonial BancGroup will pay all interest then accrued and unpaid, including any additional interest as described under **Additional Interest** below, together with interest thereon compounded at the rate specified for the junior subordinated debentures to the extent permitted by applicable law, **compound interest**.

Prior to the termination of any extension period, Colonial BancGroup may further defer payments of interest by extending that extension period. However, the extension period, including all such previous and further extensions, may not exceed 20 consecutive quarters by periods and may not extend beyond the stated maturity date or an earlier redemption date. Upon the termination of any extension period and the payment of all amounts then due, Colonial BancGroup may commence a new extension period, subject to the terms set forth in this section. No interest during an extension period, except at the end of that extension period, will be due and payable.

Colonial BancGroup has no present intention of exercising its right to defer payments of interest by extending the interest payment period on the junior subordinated debentures. If the institutional trustee is the sole holder of the junior subordinated debentures, Colonial BancGroup will give the regular trustees, the institutional trustee and the debt trustee notice of its selection of the extension period one business day prior to the earlier of:

- (1) the date distributions on the preferred securities are payable; or
- (2) the date the regular trustees are required to give notice to the NYSE or any other applicable self-regulatory organization or to holders of the preferred securities of the record date or the date the distributions are payable.

The institutional trustee will give notice of Colonial BancGroup's selection of the extension period to the holders of the preferred securities. If the institutional trustee is not the sole holder of the junior subordinated debentures, Colonial BancGroup will give the holders of the junior subordinated debentures notice of its selection of the extension period at least ten business days prior to the earlier of:

- (1) the interest payment date; or
- (2) if the junior subordinated debentures are then listed or quoted, the date upon which Colonial BancGroup is required to give notice to any applicable self-regulatory organization or to holders of the junior subordinated debentures of the record date or the interest payment date.

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### **Additional Interest**

If Colonial Capital Trust IV or the institutional trustee is required to pay any taxes, duties, assessments or other governmental charges of whatever nature, other than withholding taxes, imposed by the United States, or any other taxing authority, then Colonial BancGroup will be required to pay additional interest on the junior subordinated debentures. **Additional interest** will be an amount sufficient so that the net amounts received and retained by Colonial Capital Trust IV and by the institutional trustee after paying any such taxes, duties, assessments or other governmental charges will be equal to the amounts Colonial Capital Trust IV and the institutional trustee would have received had no such taxes, duties, assessments or other governmental charges been imposed. This means that Colonial Capital Trust IV will be in the same position it would have been if it did not have to pay such taxes, duties, assessments or other governmental charges.

### **Subordination**

Colonial BancGroup has agreed that any of the junior subordinated debentures issued under the indenture will rank junior to all of the senior indebtedness to the extent provided in the indenture. Upon any payment or distribution of Colonial BancGroup's assets to creditors upon Colonial BancGroup's liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshalling of assets or any bankruptcy, insolvency, debt restructuring or similar proceedings in connection with any insolvency or bankruptcy proceeding involving Colonial BancGroup, the allocable amounts, as defined below, in respect of the senior indebtedness must be paid in full before the holders of the junior subordinated debentures will be entitled to receive or retain any payment in respect thereof.

No payments on account of principal or interest in respect of the junior subordinated debentures may be made, nor may Colonial BancGroup redeem, retire, purchase or otherwise acquire junior subordinated debentures, if there is a default in any payment with respect to senior indebtedness, or an event of default exists (or would exist) with respect to any senior indebtedness permitting the acceleration of the maturity of such senior indebtedness.

**Allocable amounts**, when used with respect to any senior indebtedness, means all amounts due or to become due on such senior indebtedness less, if applicable, any amount that would have been paid to, and retained by, the holders of such senior indebtedness (whether as a result of the receipt of payments by the holders of such senior indebtedness from Colonial BancGroup or any other obligor thereon or from any holders of, or trustee in respect of, other indebtedness that is subordinate and junior in right of payment to such senior indebtedness pursuant to any provision of such indebtedness for the payment over of amounts received on account of such indebtedness to the holders of such senior indebtedness or otherwise) but for the fact that such senior indebtedness is subordinate or junior in right of payment to (or subject to a requirement that amounts received on such senior indebtedness be paid over to obligees on) trade accounts payable or accrued liabilities arising in the ordinary course of business.

**Indebtedness for money borrowed** means any of Colonial BancGroup's obligations, or any obligation guaranteed by Colonial BancGroup, to repay borrowed money, whether or not evidenced by bonds, debentures, notes or other written instruments, except that indebtedness for money borrowed does not include trade accounts payable or accrued liabilities arising in the ordinary course of business.

**Indebtedness ranking on a parity with the junior subordinated debentures** means:

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indebtedness for money borrowed, whether outstanding on the date the indenture is executed or created, assumed or incurred after the date that the indenture is executed, to the extent the indebtedness for money

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borrowed by its terms ranks equal to and not prior or senior to the junior subordinated debentures in the right of payment upon the happening of Colonial BancGroup's dissolution, winding-up, liquidation or reorganization;

all other debt securities issued to any trust other than Colonial Capital Trust IV, or a trustee of such trust, partnership or other entity affiliated with us, that is a financing vehicle of Colonial BancGroup, in connection with the issuance by such vehicle of equity securities or other securities that are similar to the preferred securities; and

the securing of any indebtedness otherwise constituting indebtedness ranking on a parity with the junior subordinated debentures shall not be deemed to prevent such indebtedness from constituting indebtedness ranking on a parity with the junior subordinated debentures.

**Indebtedness ranking junior to the junior subordinated debentures** means any indebtedness for money borrowed, whether outstanding on the date the indenture is executed or created, assumed or incurred after the date the indenture is executed, to the extent the indebtedness for money borrowed by its terms ranks junior to and not equal with or prior to the junior subordinated debentures (and any other indebtedness ranking on a parity with the junior subordinated debentures) in right of payment upon the happening of Colonial BancGroup's dissolution, winding-up, liquidation or reorganization. The securing of any indebtedness otherwise constituting indebtedness ranking junior to the junior subordinated debentures shall not be deemed to prevent such indebtedness for money borrowed from constituting indebtedness ranking junior to the junior subordinated debentures.

**Senior indebtedness** means the principal of (and premium, if any) and interest, if any, on all indebtedness for money borrowed, whether outstanding on the date the indenture is executed or created, assumed or incurred after the date the indenture is executed, except indebtedness ranking on a parity with the junior subordinated debentures or indebtedness ranking junior to the junior subordinated debentures, and any deferrals, renewals or extensions of the senior indebtedness.

Upon satisfaction of all claims of all senior indebtedness, the holders of the junior subordinated debentures will be subrogated to the rights of the holders of senior indebtedness of Colonial BancGroup to receive payments or distributions applicable to senior indebtedness until all amounts owing on the junior subordinated debentures are paid in full. That senior indebtedness will continue to be senior indebtedness and be entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any term of that senior indebtedness.

As of June 30, 2003, senior indebtedness of Colonial BancGroup aggregated approximately \$14.1 million (holding company only). In addition, liabilities of Colonial BancGroup's subsidiaries, including depositors, as of June 30, 2003, aggregated approximately \$14.7 billion.

The indenture does not limit the aggregate amount of senior indebtedness or other financial obligations, including secured indebtedness, that may be issued or entered into by Colonial BancGroup and its subsidiaries.

Colonial BancGroup is a non-operating holding company and almost all of the operating assets of Colonial BancGroup and its consolidated subsidiaries are owned primarily by its subsidiary, Colonial Bank, N.A. Colonial BancGroup relies primarily on dividends from Colonial Bank, N.A. to meet its obligations. Colonial BancGroup is a legal entity separate and distinct from its banking and non-banking affiliates. Colonial Bank, N.A. is subject to certain restrictions imposed by Federal law on any extensions of credit to, and certain other transactions with, Colonial BancGroup and certain other affiliates, and on investments in stock or other securities thereof. Such restrictions prevent Colonial BancGroup and such other affiliates from borrowing from Colonial Bank, N.A. unless the loans are secured by various types of collateral. Further, secured loans, other transactions and investments by Colonial Bank, N.A. are generally limited in amount as to Colonial BancGroup and as to each of





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such other affiliates to 10% of Colonial Bank, N.A.'s capital and surplus and as to Colonial BancGroup and all of such other affiliates to an aggregate of 20% of Colonial Bank, N.A.'s capital and surplus. In addition, payment of dividends to Colonial BancGroup by Colonial Bank, N.A. is subject to ongoing review by banking regulators and is subject to various statutory limitations and in certain circumstances requires approval by banking regulatory authorities. Because Colonial BancGroup is a holding company, the right of Colonial BancGroup to participate in any distribution of assets of any subsidiary upon the subsidiary's liquidation or reorganization or otherwise, is subject to the prior claims of creditors of such subsidiary, except to the extent Colonial BancGroup may itself be recognized as a creditor of that subsidiary. Accordingly, the junior subordinated debentures will be effectively subordinated to all existing and future liabilities, including deposits, of all of Colonial BancGroup's subsidiaries, including Colonial Bank, N.A., and holders of the junior subordinated debentures should look only to the assets of Colonial BancGroup for payments on the junior subordinated debentures.

**Optional Redemption**

Colonial BancGroup will have the right to redeem the junior subordinated debentures prior to their stated maturity date:

- (1) in whole or in part, from time to time, on or after October 1, 2008; or
- (2) at any time prior to October 1, 2008, in whole but not in part, upon the occurrence and continuation of a special event;

in either case, upon not less than 30 nor more than 60 days' notice. The redemption price will be equal to 100% of the principal amount to be redeemed, plus unpaid interest accrued to the date of redemption. The redemption may require prior approval of the Federal Reserve Board if approval is then required under applicable law, rules, guidelines or policies.

A **special event** means a tax event, regulatory capital event or an investment company event, each as defined below.

A **tax event** means that Colonial Capital Trust IV will have received an opinion of nationally recognized independent tax counsel experienced in those matters that, as a result of:

- (1) any amendment to, or change, including any announced prospective change, in, the laws of the United States or any regulations thereunder or any political subdivision or taxing authority of or in the United States; or
- (2) any official administrative pronouncement or judicial decision interpreting or applying those laws or regulations,

which amendment or change is effective or the pronouncement or decision is announced on or after the date of original issuance of the junior subordinated debentures, there is more than an insubstantial risk that:

- (1) Colonial Capital Trust IV is, or will be within 90 days of the date of the opinion, subject to United States federal income tax with respect to income received or accrued on the junior subordinated debentures;

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- (2) interest payable by Colonial BancGroup on the junior subordinated debentures is not, or within 90 days of the date of the opinion will not be, deductible by Colonial BancGroup, in whole or in part, for United States federal income tax purposes; or
- (3) Colonial Capital Trust IV is, or will be within 90 days of the date of the opinion, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

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A **regulatory capital event** means that Colonial BancGroup will have received an opinion of nationally recognized independent bank regulatory counsel experienced in those matters that, as a result of:

- (1) any amendment to or change, including any announced prospective change, in the laws or any regulations thereunder of the United States or any rules, guidelines or policies of the Federal Reserve Board; or
- (2) any official administrative pronouncement or judicial decision interpreting or applying the laws or regulations,

which amendment or change is effective or the pronouncement or decision is announced on or after the date of original issuance of the junior subordinated debentures, there is more than an insubstantial risk that:

- (1) the preferred securities no longer constitute Tier 1 capital or its then equivalent for regulatory capital purposes, or
- (2) within 90 days of the date of either of those events, the preferred securities will not constitute Tier 1 capital or its then equivalent for regulatory capital purposes;

provided, however, that the distribution of the junior subordinated debentures in connection with the dissolution of Colonial Capital Trust IV by Colonial BancGroup and the treatment of the junior subordinated debentures as other than Tier 1 capital will not constitute a regulatory capital event.

A regulatory capital event would include the potential change in Federal Reserve Board guidelines on the eligibility of trust preferred securities to qualify as Tier 1 regulatory capital in light of recent accounting changes affecting the criteria for consolidation of variable interest entities such as Colonial Capital Trust IV (as described in FIN 46) and the appropriate financial reporting balance sheet classification of trust preferred securities (as described in FAS 150).

An **investment company event** means the receipt by Colonial Capital Trust IV of an opinion of a nationally recognized independent counsel experienced in those matters that, as a result of the occurrence of a change in law or regulation or a change, including any announced prospective change, in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority, there is more than an insubstantial risk that Colonial Capital Trust IV is or will be considered an investment company that is required to be registered under the Investment Company Act, which change or prospective change becomes effective or would become effective, as the case may be, on or after the date of original issuance of the junior subordinated debentures.

## **Certain Covenants of Colonial BancGroup**

If junior subordinated debentures are being held by the institutional trustee for the benefit of holders of trust securities and:

an indenture event of default, or an event that, with notice or the lapse of time or both, would be an indenture event of default, has occurred and is continuing;

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Colonial BancGroup is in default relating to its payment of any obligations under the guarantee; or

Colonial BancGroup has given notice of its election to defer payments of interest on the junior subordinated debentures by extending the interest payment period and that period, or any extension of that period, is continuing,

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then

Colonial BancGroup will not declare or pay any dividend on, make any distributions or other payments relating to, or redeem, purchase, acquire or make a liquidation payment relating to, any of its capital stock other than:

- (1) repurchases, redemptions or other acquisitions of shares of capital stock of Colonial BancGroup in connection with any employee benefit plans;
- (2) as a result of an exchange or conversion of any class or series of Colonial BancGroup's capital stock for any other class or series of Colonial BancGroup's capital stock; or
- (3) the purchase of fractional interests in shares of Colonial BancGroup's capital stock pursuant to the conversion or exchange provisions of that capital stock or the security being converted or exchanged;

Colonial BancGroup will not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities issued by Colonial BancGroup which rank equally with or junior to the junior subordinated debentures; and

Colonial BancGroup will not make any guarantee payments with respect to the foregoing, other than pursuant to the guarantee.

So long as the trust securities remain outstanding, Colonial BancGroup will covenant to:

directly or indirectly maintain 100% ownership of the common securities of the trust, unless a permitted successor of Colonial BancGroup succeeds to its ownership of the common securities;

use its best efforts to cause Colonial Capital Trust IV to:

- (1) remain a statutory trust, except in connection with the distribution of junior subordinated debentures to the holders of trust securities in liquidation of the trust, the redemption of all of the trust securities of the trust, or mergers, consolidations or amalgamations, each as permitted by the declaration which established Colonial Capital Trust IV; and
- (2) otherwise continue to be classified as a grantor trust for United States federal income tax purposes;

use its best efforts to cause each holder of trust securities to be treated as owning an undivided beneficial interest in the junior subordinated debentures; and

not to cause, as sponsor of Colonial Capital Trust IV, or permit, as holder of the common securities, the liquidation of Colonial Capital Trust IV, except as permitted in the declaration.

**Indenture Events of Default**

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The indenture provides that the following are indenture events of default relating to the junior subordinated debentures:

default in the payment of the principal of any junior subordinated debenture when due, whether at maturity, earlier redemption or otherwise;

default for 30 days in the payment of any installment of interest, including additional interest and compound interest, on any junior subordinated debenture (subject to an extension period permitted under the indenture);

default for 90 days after written notice in the performance of any other covenant in respect of any junior subordinated debenture;

certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of Colonial BancGroup; and

the dissolution, liquidation, winding-up or other termination of Colonial Capital Trust IV.

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If an indenture event of default occurs and is continuing, either the debt trustee or the holders of not less than 25 percent in aggregate principal amount of the junior subordinated debentures then outstanding may declare the principal of all junior subordinated debentures of that series to be due and payable immediately. The holders of a majority in aggregate principal amount of junior subordinated debentures may annul the declaration and waive the default if the default has been cured and a sum sufficient to pay all matured installments of interest and principal due other than by acceleration has been deposited with the debt trustee. The majority holders may not waive a payment default on the junior subordinated debentures which has become due solely by acceleration.

Prior to any declaration accelerating the maturity of the junior subordinated debentures, the holders of a majority in aggregate principal amount of the junior subordinated debentures may, on behalf of the holders of all the junior subordinated debentures, waive any past default, except a default in the payment of principal or interest, unless such default has been cured and a sum sufficient to pay all matured installments of interest and principal due otherwise than by acceleration has been deposited with the debt trustee, or a default in respect of a covenant or provision which under the indenture cannot be modified or amended without the consent of the holder of each outstanding junior subordinated debenture.

The holders of a majority in aggregate principal amount of the junior subordinated debentures will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the debt trustee under the indenture, so long as the holders of the junior subordinated debentures have offered to the debt trustee indemnity reasonably satisfactory to it against expenses and liabilities.

The indenture requires the annual filing by Colonial BancGroup with the debt trustee of a certificate as to the absence of certain defaults under the indenture.

The debt trustee may withhold notice of any event of default from the holders of the junior subordinated debentures, except in the payment of principal or interest, if the debt trustee considers it in the interest of those holders to do so.

If the institutional trustee fails to enforce its rights under the junior subordinated debentures after a holder of the preferred securities has made a written request, the holder of the preferred securities may, to the fullest extent permitted by law, institute a legal proceeding directly against Colonial BancGroup to enforce the institutional trustee's rights under the junior subordinated debentures without first instituting any legal proceeding against the institutional trustee or any other person or entity.

Despite the foregoing, if a declaration event of default has occurred and is continuing and that event is attributable to the failure of Colonial BancGroup to pay interest on or principal of the junior subordinated debentures when that interest or principal is otherwise payable, Colonial BancGroup acknowledges that, in that event, a holder of preferred securities may institute a direct action against Colonial BancGroup for payment on or after the respective due date specified in the junior subordinated debentures. Despite any payments made to the holder of preferred securities by Colonial BancGroup in connection with a direct action, Colonial BancGroup will remain obligated to pay the principal of or interest on the junior subordinated debentures held by Colonial Capital Trust IV or the institutional trustee. In connection with the direct action, Colonial BancGroup, as holder of the common securities, will be subrogated to the rights of the holder of preferred securities under the declaration to the extent of any payments made by Colonial BancGroup to that holder of preferred securities in the direct action, but only after that holder has received full payment in respect of its preferred securities.

Except as provided in the preceding paragraph and in the guarantee, the holders of preferred securities will not be able to exercise directly any other remedy available to the holders of the junior subordinated debentures unless a declaration event of default exists.





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### **Modification of the Indenture**

Modifications and amendments to the indenture may be made by Colonial BancGroup and the debt trustee with the consent of the holders of a majority in aggregate principal amount of the junior subordinated debentures at the time outstanding. However, no such modification or amendment may, without the consent of the holder of each junior subordinated debenture affected:

modify the payment terms of the junior subordinated debentures or the ability of holders to institute legal action to recover payments due and owing;

reduce the percentage of holders of junior subordinated debentures necessary to modify or amend the indenture, to waive compliance by Colonial BancGroup with any covenant or to waive any past default; or

make any change to the subordination provisions that would adversely affect the interests of the holders of junior subordinated debentures.

Modifications and amendments to the indenture may be made by Colonial BancGroup and the debt trustee without the consent of the holders of the junior subordinated debentures for specified purposes, including curing ambiguities, defects or inconsistencies that do not materially and adversely affect holders.

### **Consolidation, Merger, Sale of Assets and other Transactions**

The indenture provides that Colonial BancGroup will not consolidate with or merge into any other person or convey, transfer or lease all or substantially all of Colonial BancGroup's properties to any person, and no person shall consolidate with or merge into Colonial BancGroup or convey, transfer or lease all or substantially all of its properties to Colonial BancGroup, unless:

if Colonial BancGroup consolidates with or merges into another person or conveys or transfers all or substantially all of its properties to any person, the successor is organized under the laws of the United States or any state or the District of Columbia and, if Colonial BancGroup is not the surviving corporation, the successor expressly assumes Colonial BancGroup's obligations under the declaration, the indenture, the guarantee and the junior subordinated debentures;

immediately after giving effect to the transaction, no debenture event of default, and no event which, after notice or lapse of time or both, would become a debenture event of default, exists; and

certain other conditions as prescribed in the indenture are met.

The general provisions of the indenture do not afford holders of the junior subordinated debentures protection in the event of a highly leveraged or other transaction that Colonial BancGroup may become involved in that may adversely affect holders of the junior subordinated debentures.

**Satisfaction and Discharge**

The indenture provides that when, among other things:

all junior subordinated debentures not previously delivered to the debt trustee for cancellation have become due and payable or will become due and payable at maturity or called for redemption within one year; and

Colonial BancGroup deposits or causes to be deposited with the debt trustee funds, in trust, for the purpose and in an amount sufficient to pay and discharge the entire indebtedness on the junior subordinated debentures not previously delivered to the debt trustee for cancellation, for the principal and interest to the date of the deposit or to the stated maturity date, as the case may be, then the indenture will cease to be of further effect (except as to Colonial BancGroup's obligations to pay all other sums due pursuant to the indenture and to provide the officers' certificates and opinions of counsel), and Colonial BancGroup will be deemed to have satisfied and discharged the indenture.

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### **Miscellaneous**

The indenture provides that Colonial BancGroup will pay all fees and expenses related to:

- (1) the issuance and sale of the trust securities and the junior subordinated debentures;
- (2) the organization, maintenance and dissolution of Colonial Capital Trust IV;
- (3) the retention of the regular trustees; and
- (4) the enforcement by the institutional trustee of the rights of the holders of the preferred securities.

### **Governing Law**

The indenture and the junior subordinated debentures will be governed by, and construed in accordance with, the laws of the State of New York.

## **DESCRIPTION OF THE PREFERRED SECURITIES GUARANTEE**

Colonial BancGroup will issue the guarantee for the benefit of the holders from time to time of preferred securities. The preferred securities guarantee has been qualified as an indenture under the Trust Indenture Act. The guarantee trustee, The Bank of New York, will act as trustee under the guarantee for purposes of compliance with the provisions of the Trust Indenture Act. The terms of the guarantee will include those set forth in the guarantee and those made part of the guarantee by the Trust Indenture Act. The guarantee will be held by the guarantee trustee for the benefit of the holders of the preferred securities.

Set forth below is a summary of the material terms and provisions of the guarantee. This summary is not intended to be complete and is qualified by the guarantee, the form of which is filed as an exhibit to the registration statement which contains this prospectus, and the Trust Indenture Act.

### **General**

Pursuant to and to the extent set forth in the guarantee, Colonial BancGroup will irrevocably and unconditionally agree to pay in full to the holders of the preferred securities, except to the extent paid by Colonial Capital Trust IV, as and when due, regardless of any defense, right of set-off or counterclaim which Colonial Capital Trust IV may have or assert, the following payments, which are referred to as **guarantee payments**, without duplication:

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any unpaid distributions that are required to be paid on the preferred securities, to the extent Colonial Capital Trust IV has funds available for distributions;

the redemption price, plus all unpaid distributions, to the extent Colonial Capital Trust IV has funds available for redemption, relating to any preferred securities called for redemption by the trust; and

upon a dissolution of Colonial Capital Trust IV, other than in connection with the distribution of junior subordinated debentures to the holders of preferred securities or the redemption of all of the preferred securities, the lesser of:

- (1) the aggregate of the liquidation amount and all unpaid distributions on the preferred securities to the date of payment, to the extent Colonial Capital Trust IV has funds available therefor; or
- (2) the amount of assets of the trust remaining for distribution to holders of the preferred securities in liquidation of Colonial Capital Trust IV.

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Colonial BancGroup's obligation to make a guarantee payment may be satisfied by direct payment of the required amounts by Colonial BancGroup to the holders of preferred securities or by causing Colonial Capital Trust IV to pay those amounts to those holders.

The guarantee will not apply to any payment of distributions except to the extent Colonial Capital Trust IV has funds available for those payments. If Colonial BancGroup does not make interest payments on the junior subordinated debentures, the trust will not have funds available to pay distributions on the preferred securities.

The guarantee, when taken together with Colonial BancGroup's obligations under the junior subordinated debentures, the indenture and the declaration, including its obligations to pay costs, expenses, debts and liabilities of Colonial Capital Trust IV, other than those relating to trust securities, will provide a full and unconditional guarantee on a subordinated basis by Colonial BancGroup of payments due in respect of the preferred securities.

Colonial BancGroup has also agreed separately to irrevocably and unconditionally guarantee the obligations of Colonial Capital Trust IV with respect to the common securities to the same extent as the guarantee covering the preferred securities, except that upon an event of default under the indenture, holders of preferred securities will have priority over holders of common securities with respect to distributions and payments on liquidation, redemption or otherwise.

## **Modification; Assignment**

The guarantee may be amended only with the prior approval of the holders of a majority in aggregate liquidation amount of the preferred securities. No vote will be required, however, for any changes that do not adversely affect in any material way the rights of holders of preferred securities. All guarantees and agreements contained in the guarantee will bind the successors, assignees, receivers, trustees and representatives of Colonial BancGroup and will be for the benefit of the holders of the preferred securities then outstanding.

## **Termination**

The guarantee will terminate upon full payment of the redemption price of all preferred securities, upon distribution of the junior subordinated debentures to the holders of the trust securities or upon full payment of the amounts payable in accordance with the declaration upon liquidation of Colonial Capital Trust IV. The guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of preferred securities must restore payment of any sums paid under the preferred securities or the related guarantee.

## **Events of Default**

An event of default under the guarantee will occur upon the failure of Colonial BancGroup to perform any of its payment or other obligations under the guarantee.

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The holders of a majority in aggregate liquidation amount of the preferred securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the guarantee trustee in respect of the guarantee or to direct the exercise of any trust or power conferred upon the guarantee trustee under the guarantee. Any holder of preferred securities may institute a legal proceeding directly against Colonial BancGroup to enforce the guarantee trustee's rights and the obligations of Colonial BancGroup under the guarantee, without first instituting a legal proceeding against Colonial Capital Trust IV, the guarantee trustee or any other person or entity.

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### **Status**

The guarantee will constitute unsecured obligations of Colonial BancGroup and will rank:

- (1) subordinate and junior in right of payment to all other liabilities of Colonial BancGroup, except those made equally with or subordinate to the guarantee by their terms;
- (2) equally with the most senior preferred or preference stock now or hereafter issued by Colonial BancGroup and with any guarantee now or hereafter entered into by Colonial BancGroup in respect of any preferred or preference stock of any affiliate of Colonial BancGroup; and
- (3) senior to Colonial BancGroup common stock.

The terms of the preferred securities provide that each holder of preferred securities by acceptance of those securities agrees to the subordination provisions and other terms of the guarantee.

The guarantee will constitute a guarantee of payment and not of collection. This means that the guaranteed party may sue the guarantor to enforce its rights under the guarantee without suing any other person or entity.

### **Information Concerning the Guarantee Trustee**

Prior to the occurrence of a default relating to the guarantee, the guarantee trustee undertakes to perform only those duties as are specifically set forth in the guarantee. After default, the guarantee trustee will exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Provided that the foregoing requirements have been met, the guarantee trustee is under no obligation to exercise any of the powers vested in it by the guarantee at the request of any holder of preferred securities, unless offered indemnity reasonably satisfactory to it against the costs, expenses and liabilities which might be incurred thereby.

Colonial BancGroup or its affiliates maintain certain accounts and other banking relationships with the guarantee trustee and its affiliates in the ordinary course of business.

### **Governing Law**

The guarantee will be governed by, and construed in accordance with, the laws of the State of New York.





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**EFFECT OF OBLIGATIONS UNDER THE PREFERRED SECURITIES,  
THE GUARANTEE AND THE JUNIOR SUBORDINATED DEBENTURES**

As set forth in the declaration, the sole purpose of Colonial Capital Trust IV is to issue and sell the trust securities and to invest the proceeds from that issuance and sale in the junior subordinated debentures.

As long as payments of interest and other payments are made when due on the junior subordinated debentures, those payments will be sufficient to cover the distributions and other payments due on the trust securities. This is due to the following factors:

- (1) the aggregate principal amount of junior subordinated debentures will be equal to the sum of the aggregate liquidation amount of the trust securities;
- (2) the interest rate and the interest and other payment dates on the junior subordinated debentures will match the distribution rate and distributions and other payment dates for the trust securities;
- (3) under the indenture, Colonial BancGroup will pay, and Colonial Capital Trust IV will not be obligated to pay, directly or indirectly, all costs, expenses, debts and obligations of the trust, other than those relating to the trust securities; and
- (4) the declaration further provides that the Colonial BancGroup trustees may not cause or permit Colonial Capital Trust IV to engage in any activity that is not consistent with its stated purposes.

The guarantee, when taken together with Colonial BancGroup's obligations under the junior subordinated debentures, the indenture and the declaration, will provide a full and unconditional guarantee on a subordinated basis of distributions, redemption payments and liquidation payments on the preferred securities. If Colonial BancGroup does not make payments on the junior subordinated debentures, Colonial Capital Trust IV will not have sufficient funds to make the related payments, including distributions, on the preferred securities. The guarantee does not apply to any payment unless Colonial Capital Trust IV has sufficient funds for that payment from Colonial BancGroup. See Description of the Preferred Securities Guarantee beginning on page 40.

The declaration allows the holders of the preferred securities to direct the institutional trustee to enforce its rights under the junior subordinated debentures. If the institutional trustee fails to enforce these rights, any holder of preferred securities may, to the fullest extent permitted by law, directly sue Colonial BancGroup to enforce these rights without first suing the institutional trustee or any other person or entity. See Description of the Preferred Securities Voting Rights beginning on page 24 and Book-Entry Only Issuance The Depository Trust Company beginning on page 27. Despite the foregoing, a holder of preferred securities may institute a direct action against Colonial BancGroup if a declaration event of default has occurred and is continuing and that event is attributable to the failure of Colonial BancGroup to pay interest on or principal of the junior subordinated debentures on the date the interest or principal is otherwise payable. A direct action may be brought against Colonial BancGroup without first (1) directing the institutional trustee to enforce the terms of the junior subordinated debentures or (2) suing Colonial BancGroup to enforce the institutional trustee's rights under the junior subordinated debentures. In connection with that direct action, Colonial BancGroup, as holder of the common securities, will be subrogated to the rights of the holder of preferred securities under the declaration to the extent of any payment made by Colonial BancGroup to that holder of preferred securities but only after that holder has received full payment in respect of its preferred securities.

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Colonial BancGroup acknowledges that the guarantee trustee will enforce the guarantee on behalf of the holders of the preferred securities. If Colonial BancGroup fails to make payments under the guarantee, the guarantee allows the holders of the preferred securities to direct the guarantee trustee to enforce its rights thereunder. If the guarantee trustee fails to enforce the guarantee, any holder of preferred securities may directly sue Colonial BancGroup to enforce the guarantee trustee's rights under the guarantee. The holder need not first sue Colonial Capital Trust IV, the guarantee trustee, or any other person or entity.

Colonial BancGroup and Colonial Capital Trust IV believe that the above mechanisms and obligations, taken together, are equivalent to a full and unconditional guarantee by Colonial BancGroup, on a subordinated basis, of payments due in respect of the preferred securities.

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**UNITED STATES FEDERAL INCOME TAXATION**

**General**

In the opinion of Miller, Hamilton, Snider & Odom, L.L.C., counsel to Colonial BancGroup and Colonial Capital Trust IV, **tax counsel**, the following is a summary of certain of the material United States federal income tax consequences of the purchase, ownership and disposition of preferred securities held as capital assets by a holder who purchases those preferred securities upon initial issuance. It does not deal with special classes of holders such as banks, thrifts, real estate investment trusts, regulated investment companies, insurance companies, dealers in securities or currencies, tax-exempt investors, United States Alien Holders (as defined below beginning on page 46) to the extent that the ownership of those preferred securities are held in connection with the conduct of a trade or business in the United States or persons that will hold the preferred securities as a position in a straddle, as part of a synthetic security or hedge, as part of a conversion transaction or other integrated investment or as other than a capital asset. This summary also does not address the tax consequences to persons that have a functional currency other than the U.S. dollar or the tax consequences to shareholders, partners or beneficiaries of a holder of preferred securities. Further, it does not include any description of any alternative minimum tax consequences or the tax laws of any state or local government or of any foreign government that may be applicable to the preferred securities. This summary is based on the Internal Revenue Code of 1986, as amended, the Code, Treasury regulations under the Code, the regulations, and administrative and judicial interpretations of the Code and the regulations, as of the date of this prospectus, all of which are subject to change, possibly on a retroactive basis.

**Classification of the Junior Subordinated Debentures**

In connection with the issuance of the junior subordinated debentures, tax counsel will render its opinion that, under current law and assuming full compliance with the terms of the indenture and certain other documents, and based on certain facts and assumptions contained in that opinion, the junior subordinated debentures will be classified for United States federal income tax purposes as indebtedness of Colonial BancGroup. In addition, by acceptance of a preferred security, each holder agrees to treat the junior subordinated debentures as indebtedness for all United States federal income tax purposes.

**Classification of the Trust**

In connection with the issuance of the preferred securities, tax counsel will render its opinion that, under current law and assuming full compliance with the terms of the declaration and the indenture and certain other documents, and based on certain facts and assumptions contained in that opinion, Colonial Capital Trust IV will be classified for United States federal income tax purposes as a grantor trust and not as an association taxable as a corporation. Accordingly, for United States federal income tax purposes, each holder of preferred securities generally will be considered the owner of a pro rata undivided interest in the junior subordinated debentures, and each holder will be required to include in its gross income any interest, or original issue discount, **OID**, paid or accrued with respect to its allocable share of those junior subordinated debentures.

**Interest Income and Original Issue Discount**

Under regulations promulgated under the OID provisions of the Code, a remote contingency that stated interest will not be timely paid will be ignored in determining whether a debt instrument is issued with OID. Colonial BancGroup believes that the likelihood of its exercising its option

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to defer payments of interest on the junior subordinated debentures is remote since exercising that option would prevent Colonial BancGroup from, among other things, declaring dividends on any class of its equity securities. Accordingly, Colonial BancGroup intends to take the position, based on the advice of tax counsel, that the junior subordinated debentures will not be considered to be issued with OID and, accordingly, stated interest on the junior subordinated debentures generally will be taxable to a holder as ordinary income at the time it is paid or accrued in accordance with the holder's regular method of accounting for United States federal income tax purposes. However, the Internal Revenue Service, the **IRS**, could interpret the regulations with respect to OID in a manner contrary to the

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position Colonial BancGroup intends to take. If the IRS succeeded in asserting the contrary position, the OID rules would generally require you to include interest on the junior subordinated debentures in your taxable income as it accrues rather than when you receive payment, even though you use the cash method of accounting for United States federal income tax purposes.

Under the regulations, if Colonial BancGroup were to exercise its option to defer payments of interest on the junior subordinated debentures, the junior subordinated debentures would at that time be treated as having been reissued with OID, and all stated interest on the junior subordinated debentures would thereafter be treated as OID as long as the junior subordinated debentures remain outstanding. In that event, all of a holder's taxable interest income with respect to the junior subordinated debentures would thereafter be accounted for on an economic accrual basis regardless of the holder's method of tax accounting, and actual cash distributions of stated interest would not be reported as taxable income. Consequently, a holder of preferred securities would be required to include in gross income OID even if Colonial BancGroup does not make actual cash payments during an extension period. The amount of OID income includible in your taxable income would be determined on the basis of a constant yield method over the remaining term of the junior subordinated debentures and the actual receipt of future payments of stated interest on the junior subordinated debentures would no longer be separately reported as taxable income. The total amount of OID that would accrue during the deferred interest payment period would be approximately equal to the amount of the cash payment due at the end of that period. Any OID included in income would increase your adjusted tax basis in your preferred securities and junior subordinated debentures, and your actual receipt of cash interest payments would reduce that adjusted tax basis.

These regulations have not yet been addressed in any rulings or other interpretations by the Internal Revenue Service, and it is possible that the IRS could take a position contrary to tax counsel's interpretation.

Because income on the preferred securities will constitute interest or OID, (i) corporate holders of the preferred securities will not be entitled to a dividends-received deduction with respect to any income recognized with respect to the preferred securities and (ii) noncorporate individual holders will not be entitled to any preferential tax rate with respect to any income received on the preferred securities.

**Receipt of Junior Subordinated Debentures or Cash upon Liquidation of Colonial Capital Trust IV**

Colonial BancGroup will have the right at any time to dissolve Colonial Capital Trust IV and cause the junior subordinated debentures to be distributed to the holders of the trust securities, subject to Colonial BancGroup's receipt of an opinion of counsel that the resulting liquidation and distribution of the junior subordinated debentures would not result in a taxable event to holders of the preferred securities. Under current law, such a distribution, for United States federal income tax purposes, would be treated as a nontaxable event to each holder, and each holder would receive an aggregate tax basis in the junior subordinated debentures received equal to the holder's aggregate tax basis in its preferred securities. A holder's holding period in the junior subordinated debentures so received in dissolution of Colonial Capital Trust IV would include the period during which the preferred securities were held by the holder. If, despite the delivery of an opinion of counsel that the dissolution, resulting liquidation and distribution of junior subordinated debentures would not result in a taxable event to holders of the preferred securities, Colonial Capital Trust IV is ultimately characterized for United States federal income tax purposes as an association taxable as a corporation at the time of its dissolution and liquidation, the distribution of junior subordinated debentures would be a taxable event to holders of the preferred securities.

If you receive junior subordinated debentures in exchange for your preferred securities, you would continue to accrue interest, and OID if any, in respect of those junior subordinated debentures in the manner described above. Under certain circumstances described in this prospectus under "Description of the Preferred Securities," the junior subordinated debentures may be redeemed for cash and the proceeds of that redemption distributed to holders in redemption of their preferred securities. Under current law, such a redemption would, for United States federal income tax purposes, constitute a taxable disposition of the redeemed preferred securities, and a holder would recognize gain or loss, if any, as if it sold those redeemed preferred securities for cash. See "Sales of Preferred Securities" below beginning on page 46.



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### **Sales of Preferred Securities**

A holder that sells preferred securities, including a redemption of the preferred securities by Colonial Capital Trust IV, will recognize gain or loss equal to the difference between its adjusted tax basis in the preferred securities and the amount realized on the sale of those preferred securities (other than with respect to accrued and unpaid interest which has not yet been included in income, which will be treated as ordinary income). A holder's adjusted tax basis in the preferred securities generally will be its initial purchase price increased by OID (if any) previously includable in the holder's gross income to the date of disposition and decreased by payments received on the preferred securities in respect of OID (if any). The gain or loss generally will be a capital gain or loss and generally will be a long-term capital gain or loss if the preferred securities have been held by that holder for more than one year. Long-term capital gains of non-corporate holders are generally subject to reduced capital gain rates.

The preferred securities may trade at a price that does not accurately reflect the value of accrued but unpaid interest with respect to the underlying junior subordinated debentures. A holder who uses the accrual method of accounting for tax purposes, and a cash method holder, if the junior subordinated debentures are deemed to have been issued with OID, and who disposes of his or her preferred securities between record dates for payments of distributions thereon will be required to include accrued but unpaid interest on the junior subordinated debentures through the date of disposition in income as ordinary income (i.e., interest or, possibly, OID), and to add that amount to his or her adjusted tax basis in his or her pro rata share of the underlying junior subordinated debentures deemed disposed of. To the extent the selling price is less than the holder's adjusted tax basis (which will include all accrued but unpaid interest), a holder will recognize a capital loss. Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for United States federal income tax purposes.

### **United States Alien Holders**

For purposes of this discussion, a **United States Alien Holder** is any corporation, individual, partnership, estate or trust that is not a U.S. Holder for United States federal income tax purposes.

A **U.S. Holder** is a beneficial owner of preferred securities who or which is:

- (1) a citizen or individual resident (or is treated as a citizen or individual resident) of the United States for federal income tax purposes;
- (2) a corporation or partnership (or other entity treated as a partnership or corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any state of the United States, including the District of Columbia;
- (3) an estate the income of which is includable in its gross income for federal income tax purposes without regard to its source; or
- (4) a trust if, and only if, (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (b) the trust was in existence on August 20, 1996 and is treated as a United States holder under applicable regulations.

Under present United States federal income tax law:



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- (1) payments by Colonial Capital Trust IV or any of its paying agents to any holder of a preferred security who or which is a United States Alien Holder generally will not be subject to United States federal withholding tax, so long as
  - (a) the beneficial owner of the preferred security does not actually or constructively own 10 percent or more of the total combined voting power of all classes of stock of Colonial BancGroup entitled to vote;

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- (b) the beneficial owner of the preferred security is not a controlled foreign corporation that is related to Colonial BancGroup through stock ownership;
  - (c) the beneficial owner of the preferred security is not a bank receiving interest described in Section 881(c)(3)(A) of the Code; and
  - (d) either (A) the beneficial owner of the preferred security certifies on an IRS Form W-8BEN to Colonial Capital Trust IV or its agent, under penalties of perjury, that it is not a U.S. Holder and provides its name and address, (B) a qualified securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business, a **financial institution**, and holds the preferred security in that capacity, certifies to Colonial Capital Trust IV or its agent, under penalties of perjury, that the statement has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes Colonial Capital Trust IV or its agent with a copy of the statement or (C) if the beneficial owner is neither an individual nor a corporation for federal income tax purposes, certain other reporting requirements are satisfied; and
- (2) a United States Alien Holder of a preferred security generally will not be subject to United States federal withholding tax on any gain realized upon the sale or other disposition (including a redemption) of a preferred security; and
  - (3) a United States Alien Holder whose income with respect to its investment in a preferred security is effectively connected with the conduct of a U.S. trade or business would generally not be subject to United States federal withholding tax and would be taxed as if the holder was a U.S. Holder provided the holder provides a properly executed IRS Form W-8ECI.

**Information Reporting to Holders**

Generally, income on the preferred securities will be reported to holders on Forms 1099, which forms should be mailed to holders of preferred securities by January 31 following each calendar year.

**Backup Withholding**

Payments made on, and proceeds from the sale of, the preferred securities may be subject to a **backup** withholding tax at the applicable statutory rate unless the holder complies with certain identification requirements. Any withheld amounts will be allowed as a credit against the holder's United States federal income tax, provided the required information is provided to the IRS.

**The United States federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their own tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of the preferred securities, including the tax consequences under federal, state, local and foreign income and other tax laws and the possible effects of changes in United States federal or other tax laws.**

**Table of Contents****ERISA CONSIDERATIONS**

Each fiduciary of a pension, profit-sharing or other employee benefit plan, a **plan**, subject to the Employee Retirement Income Security Act of 1974, as amended, **ERISA**, should consider the fiduciary standards of ERISA in the context of the plan's particular circumstances before authorizing an investment in the preferred securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan, and whether the investment would involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code, also **plans**, from engaging in certain transactions involving **plan assets** with persons who are **parties in interest** under ERISA or **disqualified persons** under the Code, **parties in interest**, with respect to the plan or account. A violation of these **prohibited transaction** rules may result in civil penalty or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Employee benefit plans that are governmental plans (as defined in section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) are not subject to the requirements of ERISA or Section 4975 of the Code. However, governmental plans may be subject to similar provisions under applicable state laws.

Under a regulation, the **Plan Assets Regulation**, issued by the U.S. Department of Labor, the assets of Colonial Capital Trust IV would be deemed to be **plan assets** of a plan for purposes of ERISA and Section 4975 of the Code if a plan were to acquire an equity interest in Colonial Capital Trust IV and no exception was applicable under the Plan Assets Regulation. An **equity interest** is defined under the Plan Assets Regulation as any interest in an entity other than an instrument which is treated as indebtedness under applicable law and which has no substantial equity features and specifically includes a beneficial interest in a trust.

Pursuant to the Plan Assets Regulation, the assets of Colonial Capital Trust IV would not be deemed to be **plan assets** of investing plans if, among other exceptions, the preferred securities constitute **publicly offered securities**. For this purpose, a publicly offered security is a security that is (a) freely transferable, (b) part of a class of securities that is owned by 100 or more investors independent of the issuer and of each other, and (c) either (1) part of a class of securities registered under Section 12(b) or 12(g) of the Exchange Act or (2) sold to the Plan as part of an offering pursuant to an effective registration statement under the Securities Act, and the class of securities is registered under the Exchange Act within 120 days after the end of the issuer's fiscal year. Although no assurances can be given, it is anticipated that the preferred securities will constitute **publicly offered securities**.

Colonial BancGroup, the obligor with respect to the junior subordinated debentures held by Colonial Capital Trust IV, and its affiliates and the institutional trustee may be considered parties in interest with respect to many plans and, as a result of this transaction, may become parties in interest to plans that purchase the preferred securities. Accordingly, the purchase and/or holding of preferred securities by a plan with respect to which Colonial BancGroup, the institutional trustee or any affiliate is or becomes a party in interest may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless those preferred securities are acquired pursuant to and in accordance with an applicable exemption.

The Department of Labor has issued five prohibited transaction class exemptions, **PTCEs**, that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the preferred securities. These exemptions are:

- (1) PTCE 84-14, an exemption for certain transactions determined by independent qualified professional asset managers;



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- (2) PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- (3) PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- (4) PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; or
- (5) PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

The preferred securities may not be purchased or held by (1) any plan, (2) any entity whose underlying assets include **plan assets** by reason of any plan's investment in the entity, a **plan asset entity**, or (3) any person investing **plan assets** of any plan, unless in each case the purchaser or holder is eligible for the exemptive relief available under any of the PTCEs listed above or another applicable similar exemption. Any purchaser or holder of the preferred securities or any interest in the preferred securities will be deemed to have represented by its purchase and holding of the preferred securities that it either,

- (1) is not a plan or a plan asset entity and is not purchasing those securities on behalf of or with **plan assets** of any plan; or
- (2) with respect to the purchase or holding, is eligible for the exemptive relief available under any of the PTCEs listed above or another applicable exemption with respect to the purchase or holding.

If a purchaser or holder of the preferred securities that is a plan or a plan asset entity elects to rely on an exemption other than one of the PTCEs listed above, Colonial BancGroup and Colonial Capital Trust IV may require a satisfactory opinion of counsel or other evidence with respect to the availability of that exemption for the purchase and holding.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt transactions, it is important that fiduciaries or other persons considering purchasing the preferred securities on behalf of or with **plan assets** of any plan consult with its ERISA counsel regarding the potential consequences if the assets of Colonial Capital Trust IV were deemed to be **plan assets** and the availability of exemptive relief under any of the PTCEs listed above or any other applicable exemption.

The sale of preferred securities to a plan is not a representation by Colonial Capital Trust IV, Colonial BancGroup, any trustee, the underwriters or any other person associated with the sale of the preferred securities that those securities meet relevant legal requirements with respect to investments by plans generally, or any particular plan.

**Table of Contents****UNDERWRITING**

Subject to the terms and conditions set forth in an underwriting agreement, Colonial Capital Trust IV has agreed to sell to each of the underwriters named below, and each of the underwriters, for whom Lehman Brothers Inc. and Stifel, Nicolaus & Company, Incorporated are acting as representatives, has severally agreed to purchase, the number of preferred securities set forth opposite its name below. In the underwriting agreement, the several underwriters have agreed, subject to the terms and conditions set forth in the underwriting agreement, to purchase all the preferred securities offered hereby if any of the preferred securities are purchased. If an underwriter defaults, the underwriting agreement provides that, in certain circumstances, the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

<u>Name of Underwriter</u>	<u>Number of Preferred Securities</u>
Lehman Brothers Inc.	625,000
Stifel, Nicolaus & Company, Incorporated	625,000
Morgan Keegan & Company, Inc.	600,000
Sandler O'Neill & Partners, L.P.	600,000
Sterne, Agee and Leach, Inc.	600,000
SunTrust Capital Markets, Inc.	150,000
Advest, Inc.	40,000
BB&T Capital Markets, a division of Scott & Stringfellow, Inc.	40,000
Bear, Stearns & Co. Inc.	40,000
C.L. King & Associates, Inc.	40,000
D.A. Davidson & Co.	40,000
Fahnestock & Co. Inc.	40,000
Ferris, Baker Watts, Incorporated	40,000
Howe Barnes Investments, Inc.	40,000
Janney Montgomery Scott LLC	40,000
J.P. Morgan Securities Inc.	40,000
Keefe, Bruyette and Woods	40,000
Legg Mason Wood Walker, Incorporated	40,000
Maxim Financial Holdings, Inc.	40,000
Mesirow Financial, Inc.	40,000
RBC Dain Raucher Inc.	40,000
Robert Baird	40,000
Ryan, Beck & Co., LLC	40,000
Southwest Securities, Inc.	40,000
U.S. Bancorp Piper Jaffray Inc.	40,000
Wells Fargo Securities, LLC	40,000
<b>Total</b>	<b>4,000,000</b>

The underwriters propose to offer the preferred securities, in part, directly to the public at the initial public offering price set forth on the cover page of this prospectus, and, in part, to selected securities dealers at that price less a concession of \$0.50 per preferred security. The underwriters may allow, and those dealers may re-allow, a concession not in excess of \$0.35 per preferred security to selected brokers and dealers. After the initial public offering of the preferred securities, the initial public offering price and other selling terms may be changed.



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In view of the fact that the proceeds of the sale of the preferred securities will ultimately be used by Colonial Capital Trust IV to purchase the junior subordinated debentures of Colonial BancGroup, the underwriting agreement provides that Colonial BancGroup will pay as compensation to the underwriters arranging the investment therein of those proceeds, an amount in immediately available funds of \$0.7875 per preferred security, or \$3,150,000 in the aggregate, for the accounts of the several underwriters.

The following table shows the per preferred security and total public offering price, underwriting commission to be paid by Colonial BancGroup and the proceeds to Colonial Capital Trust IV.

	<b>Per Preferred Security</b>	<b>Total</b>
Public offering price(1)	\$ 25.00	\$ 100,000,000
Underwriting commission to be paid by Colonial BancGroup	\$ 0.7875	\$ 3,150,000
Proceeds to Colonial Capital Trust IV	\$ 25.00	\$ 100,000,000

(1) Plus accumulated distributions from September 16, 2003, if settlement occurs after that date.

During a period of 30 days from the date of the prospectus, neither Colonial Capital Trust IV nor Colonial BancGroup will, without the prior written consent of the underwriters, directly or indirectly, sell, offer to sell, grant any option for sale of, or otherwise dispose of, any preferred securities, any security convertible into or exchangeable into or exercisable for preferred securities or junior subordinated debentures or any debt securities substantially similar to the junior subordinated debentures or equity securities substantially similar to the preferred securities, except for the securities offered by this prospectus.

Prior to this offering, there has been no public market for the preferred securities. It is anticipated that the preferred securities will be approved for listing on the NYSE, subject to official notice of issuance. Trading of the preferred securities on the NYSE is expected to commence within 30 days after the initial delivery of the preferred securities. The underwriters have advised Colonial BancGroup and Colonial Capital Trust IV that they intend to make a market in the preferred securities prior to commencement of trading on the NYSE, but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the existence or liquidity of any trading market for the preferred securities.

Colonial Capital Trust IV and Colonial BancGroup have agreed to indemnify the underwriters against, or contribute to payments that the underwriters may be required to make in respect of, certain liabilities, including liabilities under the Securities Act of 1933.

Until the distribution of the preferred securities is completed, rules of the SEC may limit the ability of the underwriters and any selling group members to bid for and purchase the preferred securities. As an exception to these rules, the underwriters are permitted to engage in some transactions that stabilize the price of the preferred securities. Those transactions consist of bids or purchases for the purposes of pegging, fixing or maintaining the price of the preferred securities.

If the underwriters create a short position in the preferred securities in connection with the offering, i.e., if they sell more preferred securities than are set forth on the cover page of this prospectus, the underwriters may reduce the short position by purchasing preferred securities in the open market.



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The underwriters may also impose a penalty bid on certain selling group members. This means that if the underwriters purchase preferred securities in the open market to reduce the underwriters' short position or to stabilize the price of the preferred securities, they may reclaim the amount of the selling concession from the selling group members who sold those preferred securities as part of the offering.

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In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of those purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

None of Colonial BancGroup, Colonial Capital Trust IV or any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the preferred securities. In addition, none of Colonial BancGroup, Colonial Capital Trust IV or any of the underwriters makes any representation that the underwriters will engage in those transactions or that those transactions, once commenced, will not be discontinued without notice.

It is expected that delivery of the preferred securities will be made against payment for them on or about the date specified in the last paragraph of the cover page of this prospectus, which is the fifth business day following the date of pricing of the preferred securities (such settlement cycle being referred to in this prospectus as T+5 ). The ability to settle secondary market trades of the preferred securities effected on the date of pricing and the succeeding business day may be affected by T+5 settlement.

In the ordinary course of their business, some of the underwriters or their affiliates have engaged, and expect in the future to engage, in investment banking, commercial banking, financial advisory and/or other transactions with Colonial BancGroup and its subsidiaries, for which they have received, and may in the future receive, fees and commissions.

## **LEGAL MATTERS**

Certain matters of Delaware law relating to the validity of the preferred securities will be passed upon on behalf of Colonial Capital Trust IV and Colonial BancGroup by Richards, Layton & Finger, P.A., Wilmington, Delaware, special Delaware counsel to Colonial Capital Trust IV and Colonial BancGroup. The validity of the junior subordinated debentures and the guarantee and certain matters relating thereto will be passed upon for Colonial BancGroup and certain United States federal income taxation matters will be passed upon for Colonial BancGroup and Colonial Capital Trust IV by Miller, Hamilton, Snider & Odom, L.L.C., Montgomery, Alabama, of which John C. H. Miller, Jr., a director of Colonial BancGroup, is a member. Such firm received fees for legal services performed in 2002 of approximately \$2,148,028. John C. H. Miller, Jr. beneficially owns 98,810 shares of Colonial BancGroup common stock. Sidley Austin Brown & Wood LLP, New York, New York, will act as counsel to the underwriters.

## **EXPERTS**

The financial statements incorporated in this Prospectus by reference to Colonial BancGroup's Annual Report on Form 10-K for the year ended December 31, 2002 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in accounting and auditing.

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4,000,000 Preferred Securities

Colonial Capital Trust IV

7.875% Preferred Securities

(liquidation amount \$25 per preferred security)

fully and unconditionally guaranteed by

**The Colonial BancGroup, Inc.**

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PROSPECTUS

September 9, 2003

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**LEHMAN BROTHERS**

**STIFEL, NICOLAUS & COMPANY**

**INCORPORATED**

**MORGAN KEEGAN & COMPANY, INC.**

**SANDLER O NEILL & PARTNERS, L.P.**

**STERNE, AGEE AND LEACH, INC.**

**SUNTRUST ROBINSON HUMPHREY**