

WASHINGTON TRUST BANCORP INC
Form 10-Q
August 08, 2008

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended JUNE 30, 2008 or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file number: 000-13091

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

RHODE ISLAND
(State or other jurisdiction of
incorporation or organization)

05-0404671
(I.R.S. Employer
Identification No.)

23 BROAD STREET
WESTERLY, RHODE ISLAND
(Address of principal executive
offices)

02891
(Zip Code)

(401) 348-1200
(Registrant's telephone number,
including area code)

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Mark one)

Large accelerated filer Accelerated filer
Smaller reporting company
Non-accelerated filer

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(Do not check if a smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock of the registrant outstanding as of July 31, 2008 was 13,414,879.

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FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended June 30, 2008

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Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WASHINGTON TRUST BANCORP, INC. AND
SUBSIDIARIES

(Dollars in thousands)

CONSOLIDATED BALANCE SHEETS

	Unaudited	
	June 30, 2008	December 31, 2007
Assets:		
Cash and noninterest-bearing balances due from banks	\$ 39,800	\$ 30,817
Interest-bearing balances due from banks	575	1,973
Federal funds sold and securities purchased under resale agreements	4,959	7,600
Other short-term investments	1,236	722
Mortgage loans held for sale	2,711	1,981
Securities available for sale, at fair value; amortized cost \$799,938 in 2008 and \$750,583 in 2007	790,064	751,778
Federal Home Loan Bank stock, at cost	42,008	31,725
Loans:		
Commercial and other	795,013	680,266
Residential real estate	608,351	599,671
Consumer	302,286	293,715
Total loans	1,705,650	1,573,652
Less allowance for loan losses	21,963	20,277
Net loans	1,683,687	1,553,375
Premises and equipment, net	25,170	25,420
Accrued interest receivable	10,617	11,427
Investment in bank-owned life insurance	42,262	41,363
Goodwill	50,479	50,479
Identifiable intangible assets, net	10,781	11,433
Other assets	28,640	19,847
Total assets	\$ 2,732,989	\$ 2,539,940
Liabilities:		
Deposits:		
Demand deposits	\$ 187,865	\$ 175,542
NOW accounts	170,733	164,944
Money market accounts	305,860	321,600
Savings accounts	177,490	176,278
Time deposits	767,594	807,841
Total deposits	1,609,542	1,646,205
Dividends payable	2,819	2,677
Federal Home Loan Bank advances	845,291	616,417
Junior subordinated debentures	32,991	22,681
Other borrowings	26,484	32,560
Accrued expenses and other liabilities	29,440	32,887
Total liabilities	2,546,567	2,353,427
Shareholders' Equity:		
Common stock of \$.0625 par value; authorized 30,000,000 shares; issued 13,503,876 shares in 2008 and 13,492,110 shares in 2007	844	843
Paid-in capital	34,852	34,874
Retained earnings	160,593	154,647

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Accumulated other comprehensive loss	(7,098)	(239)
Treasury stock, at cost; 105,677 shares in 2008 and 137,652 shares in 2007	(2,769)	(3,612)
Total shareholders' equity	186,422	186,513
Total liabilities and shareholders' equity	\$ 2,732,989	\$ 2,539,940

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Table of ContentsWASHINGTON TRUST BANCORP, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF
INCOME(Dollars and shares in thousands,
except per share amounts)

Periods ended June 30,	Three Months		Unaudited	
	2008	2007	2008	2007
Interest income:				
Interest and fees on loans	\$ 24,406	\$ 24,414	\$ 49,376	\$ 48,348
Interest on securities:				
Taxable	8,302	7,839	16,718	15,631
Nontaxable	786	759	1,566	1,427
Dividends on corporate stock and Federal Home Loan Bank stock	489	685	1,109	1,403
Other interest income	50	184	190	375
Total interest income	34,033	33,881	68,959	67,184
Interest expense:				
Deposits	9,248	13,215	21,147	26,192
Federal Home Loan Bank advances	7,794	5,112	15,093	10,080
Junior subordinated debentures	509	338	847	676
Other interest expense	275	289	589	439
Total interest expense	17,826	18,954	37,676	37,387
Net interest income	16,207	14,927	31,283	29,797
Provision for loan losses	1,400	300	1,850	600
Net interest income after provision for loan losses	14,807	14,627	29,433	29,197
Noninterest income:				
Wealth management services:				
Trust and investment advisory fees	5,321	5,252	10,663	10,290
Mutual fund fees	1,445	1,352	2,786	2,614
Financial planning, commissions and other service fees	884	889	1,459	1,459
Wealth management services	7,650	7,493	14,908	14,363
Service charges on deposit accounts	1,208	1,220	2,368	2,345
Merchant processing fees	1,914	1,829	3,186	3,033
Income from bank-owned life insurance	453	399	900	790
Net gains on loan sales and commissions on loans originated for others	433	510	924	774
Net (losses) gains on securities	(53)	(700)	(98)	336
Other income	554	372	1,015	730
Total noninterest income	12,159	11,123	23,203	22,371
Noninterest expense:				

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Salaries and employee benefits	10,411	10,285	20,754	20,097
Net occupancy	1,064	1,038	2,202	2,055
Equipment	977	861	1,921	1,693
Merchant processing costs	1,598	1,558	2,666	2,577
Outsourced services	742	535	1,378	1,054
Advertising and promotion	467	572	853	1,001
Legal, audit and professional fees	430	404	973	854
Amortization of intangibles	326	348	652	716
Debt prepayment penalties	–	–	–	1,067
Other expenses	2,039	2,159	3,797	3,755
Total noninterest expense	18,054	17,760	35,196	34,869
Income before income taxes	8,912	7,990	17,440	16,699
Income tax expense	2,817	2,508	5,529	5,242
Net income	\$ 6,095	\$ 5,482	\$ 11,911	\$ 11,457

Weighted average shares outstanding – basic	13,381.1	13,339.6	13,369.6	13,375.7
Weighted average shares outstanding – diluted	13,567.0	13,616.4	13,550.9	13,667.6
Per share information:				
Basic earnings per share	\$ 0.45	\$ 0.41	\$ 0.89	\$ 0.86
Diluted earnings per share	\$ 0.45	\$ 0.40	\$ 0.88	\$ 0.84
Cash dividends declared per share	\$ 0.21	\$ 0.20	\$ 0.41	\$ 0.40

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Table of ContentsWASHINGTON TRUST BANCORP, INC. AND
SUBSIDIARIES

(Dollars in thousands)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended June 30,	2008	Unaudited	2007
Cash flows from operating activities:			
Net income	\$ 11,911	\$	11,457
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,850		600
Depreciation of premises and equipment	1,505		1,464
Net amortization of premium and discount	520		354
Amortization of intangibles	652		716
Share-based compensation	186		323
Non-cash charitable contribution	–		520
Earnings from bank-owned life insurance	(900)		(790)
Net gains on loan sales	(924)		(774)
Net losses (gains) on securities	98		(336)
Proceeds from sales of loans	35,406		28,293
Loans originated for sale	(35,563)		(29,811)
Increase in accrued interest receivable, excluding purchased interest	990		137
Decrease increase in other assets	(682)		(987)
Decrease in accrued expenses and other liabilities	(4,125)		(1,635)
Other, net	(9)		(2)
Net cash provided by operating activities	10,915		9,529
Cash flows from investing activities:			
Purchases of:			
Mortgage-backed securities available for sale	(170,332)		(113,649)
Other investment securities available for sale	(1,025)		(33,896)
Other investment securities held to maturity	–		(12,882)
Proceeds from sale of:			
Mortgage-backed securities available for sale	–		47,938
Other investment securities available for sale	61,237		9,438
Mortgage-backed securities held for sale	–		38,501
Other investment securities held to maturity	–		21,698
Maturities and principal payments of:			
Mortgage-backed securities available for sale	50,125		32,583
Other investment securities available for sale	7,012		6,432
Mortgage-backed securities held to maturity	–		3,191
Other investment securities held to maturity	–		20,940
Purchase of Federal Home Loan Bank stock	(10,283)		–

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Net increase in loans	(108,041)	(24,880)
Proceeds from sale of loans	18,047	—
Purchases of loans, including purchased interest	(42,086)	(4,265)
Purchases of premises and equipment	(1,255)	(3,450)
Equity investment in capital trusts	(310)	—
Payment of deferred acquisition obligation	(8,065)	(6,720)
Net cash used in investing activities	(204,976)	(19,471)
Cash flows from financing activities:		
Net decrease in deposits	(36,663)	(8,908)
Net increase in other borrowings	1,989	19,610
Proceeds from Federal Home Loan Bank advances	705,421	391,719
Repayment of Federal Home Loan Bank advances	(476,531)	(397,433)
Purchases of treasury stock, including deferred compensation plan activity	43	(4,264)
Net proceeds from the issuance of common stock under dividend reinvestment plan	295	—
Net proceeds from the exercise of stock options and issuance of other equity instruments	112	320
Tax benefit from stock option exercises and issuance of other equity instruments	192	242
Proceeds from the issuance of junior subordinated debentures, net of debt issuance costs	10,016	—
Cash dividends paid	(5,355)	(5,237)
Net cash provided by (used in) financing activities	199,519	(3,951)
Net increase (decrease) in cash and cash equivalents	5,458	(13,893)
Cash and cash equivalents at beginning of period	41,112	71,909
Cash and cash equivalents at end of period	\$ 46,570	\$ 58,016

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Table of ContentsWASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Dollars in thousands)

Six months ended June 30,	Unaudited	
	2008	2007
Noncash Investing and Financing Activities:		
Loans charged off	\$ 326	\$ 370
Securities proceeds due from broker	3,084	—
Supplemental Disclosures:		
Interest payments	36,687	37,588
Income tax payments	6,868	6,309

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL
STATEMENTS

General

Washington Trust Bancorp, Inc. (the “Bancorp”) is a publicly-owned registered bank holding company and financial holding company. The Bancorp owns all of the outstanding common stock of The Washington Trust Company (the “Bank”), a Rhode Island chartered commercial bank founded in 1800. Through its subsidiaries, the Bancorp offers a complete product line of financial services to individuals and businesses including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, Massachusetts and southeastern Connecticut, ATMs, and its Internet web site (www.washtrust.com).

(1) Basis of Presentation

The consolidated financial statements include the accounts of the Bancorp and its subsidiaries (collectively, the “Corporation” or “Washington Trust”). All significant intercompany transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period’s classification. Such reclassifications have no effect on previously reported net income or shareholders’ equity.

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (“GAAP”) and to general practices of the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to near-term change are the determination of the allowance for loan losses and the review of goodwill, other intangible assets and investments for impairment.

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) and disclosures necessary to present fairly the Corporation’s financial position as of June 30, 2008 and December 31, 2007, respectively, and the results of operations and cash flows for the interim periods presented. Interim results are not necessarily reflective of the results of the entire year. The unaudited consolidated financial statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Washington Trust Bancorp, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2007.

(2) New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value and expands disclosures of fair value measurements. SFAS No. 157 applies to the accounting principles that currently use fair value measurement and does not require any new fair value measurements. The expanded disclosures focus on the inputs used to measure fair value as well as the effect of the fair value measurements on earnings. SFAS No. 157 is effective as of the beginning of the first fiscal year beginning after November 15, 2007 and interim periods within that fiscal year. The adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on the Corporation’s financial position or results of operations. The required disclosures about fair value measurements for financial assets and liabilities have been included in Note 10. In accordance with FASB Staff Position No. 157-2, “Effective Date of FASB Statement No. 157,” the effective date of SFAS No. 157 as it applies to nonfinancial assets, such as goodwill, and nonfinancial liabilities has been delayed to January 1, 2009. The Corporation is currently evaluating the impact that the adoption of SFAS No. 157 for nonfinancial assets and liabilities will have on the Corporation’s financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132R)" ("SFAS No. 158"). The requirement to measure the plan's assets and obligations as of the employer's fiscal year end was adopted effective January 1, 2008. The adoption of the measurement date provision of SFAS No. 158 did not have a material impact on the Corporation's financial position or results of operations. See further discussion in Note 11.

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The SEC released Staff Accounting Bulletin (“SAB”) No. 109 in November 2007. SAB No. 109 provides guidance on written loan commitments that are accounted for at fair value through earnings. SAB No. 109 supersedes SAB No. 105, which provided guidance on derivative loan commitments pursuant to SFAS No. 133, “Accounting for Derivative Instruments and Hedging Transactions”. SAB No. 105 stated that in measuring the fair value of a derivative loan commitment it would be inappropriate to incorporate the expected net future cash flows related to the associated loan. SAB No. 109, consistent with the guidance in SFAS No. 156 and SFAS No. 159, requires that expected net future cash flows related to the associated servicing of the loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB No. 109 is applied on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The adoption of SAB No. 109 did not have a material impact on the Corporation’s financial position or results of operations.

The SEC released SAB No. 110 in December 2007. SAB No. 110 provides guidance on the use of a "simplified" method, as discussed in SAB No. 107, in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123 (revised 2004), “Share-Based Payment”. SAB No. 107 did not expect a company to use the simplified method for share option grants after December 31, 2007. At the time SAB No. 107 was issued, the SEC believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. The SEC understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the SEC will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. The adoption of SAB No. 110 did not have a material impact on the Corporation’s financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS No. 161”). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedge items are accounted for under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. SFAS No. 161 encourages but does not require comparative disclosures for earlier periods at initial adoption. The Corporation will provide the additional disclosures necessary upon the adoption of SFAS No. 161.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS No. 162”). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. The current GAAP hierarchy is set forth in the American Institute of Certified Public Accountants Statement on Auditing Standards No. 69, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” The FASB has concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing SFAS No. 162 to achieve that result. SFAS No. 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to Interim Auditing Standards AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. The FASB does not expect that SFAS No. 162 will result in a change in current practice.

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WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES

(Continued)

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(3) Securities

Securities are summarized as follows:

(Dollars in thousands)

June 30, 2008	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	\$ 82,002	\$ 2,448	\$ -	\$ 84,450
Mortgage-backed securities issued by U.S. government and government-sponsored agencies	588,967	2,445	(5,298)	586,114
States and political subdivisions	81,645	81	(1,465)	80,261
Trust preferred securities	37,985	-	(7,627)	30,358
Corporate bonds	1,746	-	(13)	1,733
Corporate stocks	7,593	337	(782)	7,148
Total securities available for sale	\$ 799,938	\$ 5,311	\$ (15,185)	\$ 790,064

(Dollars in thousands)

December 31, 2007	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies				