

WASHINGTON FEDERAL INC

Form 10-Q

February 01, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2006

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 0-25454

WASHINGTON FEDERAL, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of

incorporation or organization)

425 Pike Street Seattle, Washington 98101

(Address of principal executive offices and zip code)

91-1661606
(I.R.S. Employer

Identification No.)

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(206) 624-7930

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of class:
Common stock, \$1.00 par value

at January 30, 2007
87,451,192

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

The Condensed Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:

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<u>Consolidated Statements of Operations for the quarters ended December 31, 2006 and 2005</u>	Page 4
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	December 31, 2006 (In thousands, except share data)	September 30, 2006
ASSETS		
Cash and cash equivalents	\$ 58,029	\$ 45,722
Available-for-sale securities, including encumbered securities of \$642,117 and \$637,855, at fair value	1,385,787	1,451,038
Held-to-maturity securities, including encumbered securities of \$125,376 and \$129,893, at amortized cost	152,640	184,928
Loans receivable, net	7,246,311	7,078,443
Interest receivable	42,139	42,304
Premises and equipment, net	61,350	62,159
Real estate held for sale	4,391	3,903
FHLB stock	129,453	129,453
Intangible assets, net	56,040	56,259
Other assets	14,688	14,811
	\$ 9,150,828	\$ 9,069,020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Savings and demand accounts	\$ 5,334,099	\$ 5,285,708
Repurchase agreements with customers	23,939	26,018
	5,358,038	5,311,726
FHLB advances	1,500,000	1,500,000
Other borrowings	890,000	870,000
Advance payments by borrowers for taxes and insurance	13,705	29,505
Federal and state income taxes	58,202	39,667
Accrued expenses and other liabilities	51,294	55,402
	7,871,239	7,806,300
Stockholders' equity		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 104,562,903 and 104,467,245 shares issued; 87,434,482 and 87,338,824 shares outstanding	104,563	104,467
Paid-in capital	1,247,040	1,246,025
Accumulated other comprehensive loss, net of taxes	(5,696)	(5,975)
Treasury stock, at cost; 17,128,421 shares	(204,930)	(204,930)
Retained earnings	138,612	123,133
	1,279,589	1,262,720
	\$ 9,150,828	\$ 9,069,020

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES*****CONSOLIDATED STATEMENTS OF OPERATIONS******(UNAUDITED)***

	Quarter Ended December 31,	
	2006	2005
	(In thousands, except per share data)	
INTEREST INCOME		
Loans	\$ 123,175	\$ 102,405
Mortgage-backed securities	19,075	14,368
Investment securities and cash equivalents	3,226	7,789
	145,476	124,562
INTEREST EXPENSE		
Customer accounts	55,949	38,850
FHLB advances and other borrowings	27,138	21,650
	83,087	60,500
Net interest income	62,389	64,062
Provision for loan losses	50	
Net interest income after provision for loan losses	62,339	64,062
OTHER INCOME		
Other	3,134	3,391
	3,134	3,391
OTHER EXPENSE		
Compensation and fringe benefits	9,535	8,235
Occupancy	1,960	1,912
Other	2,456	2,522
	13,951	12,669
Gain on real estate acquired through foreclosure, net	236	139
Income before income taxes	51,758	54,923
Income taxes	18,374	18,777
NET INCOME	\$ 33,384	\$ 36,146
PER SHARE DATA		
Basic earnings	\$ 0.38	\$ 0.42
Diluted earnings	.38	.41
Cash dividends	.205	.200
Weighted average number of shares outstanding, including dilutive stock options	87,586,910	87,346,842
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS		

Table of Contents**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Quarter Ended	
	December 31, 2006	December 31, 2005
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 33,384	\$ 36,146
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	(545)	1,532
Depreciation	690	660
Stock option compensation expense	255	388
Provision for loan losses	50	
Gain on investment securities and real estate held for sale, net	(236)	(139)
Decrease (increase) in accrued interest receivable	165	(1,481)
Increase in income taxes payable	18,373	19,489
Decrease (increase) in other assets	123	(4,278)
Decrease in accrued expenses and other liabilities	(4,108)	(10,356)
Net cash provided by operating activities	48,151	41,961
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans originated		
Single-family residential loans	(232,257)	(297,693)
Construction loans	(155,146)	(175,470)
Land loans	(101,919)	(91,146)
Multi-family loans	(25,984)	(32,792)
	(515,306)	(597,101)
Savings account loans originated	(699)	(164)
Loan principal repayments	372,186	467,085
Increase (decrease) in undisbursed loans in process	(23,465)	756
Loans purchased	(10)	(126,935)
Available-for-sale securities purchased	(25,000)	(90,059)
Principal payments and maturities of available-for-sale securities	90,344	46,470
Principal payments and maturities of held-to-maturity securities	32,375	9,908
Proceeds from sales of real estate held for sale	223	683
Premises and equipment sold (purchased), net	119	(840)
Net cash used by investing activities	(69,233)	(290,197)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in customer accounts	46,312	55,822
Net increase in borrowings	20,000	15,000
Proceeds from exercise of common stock options	782	1,011
Dividends paid	(17,905)	(17,488)
Decrease in advance payments by borrowers for taxes and insurance	(15,800)	(15,315)
Net cash provided by financing activities	33,389	39,030
Increase (decrease) in cash and cash equivalents	12,307	(209,206)
Cash and cash equivalents at beginning of period	45,722	637,791

Cash and cash equivalents at end of period	\$ 58,029	\$ 428,585
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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Non-cash investing activities

Real estate acquired through foreclosure	\$ 475	\$ 109
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Cash paid during the period for

Interest	84,733	62,134
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Income taxes

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)

NOTE A Basis of Presentation

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. (Company). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2006 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with Company's 2006 Annual Report on Form 10-K (2006 Form 10-K) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

NOTE B Acquisition

On October 10, 2006, Washington Federal announced the signing of a definitive merger agreement to acquire First Federal Banc of the Southwest, Inc. (First Federal) for a purchase price of \$99 million in cash. First Federal is the holding company of First Federal Bank, a federal savings bank headquartered in Roswell, New Mexico with 13 branches in New Mexico and 2 branches in El Paso, Texas. First Federal reported total assets of \$547 million, total deposits of \$377 million and total stockholders' equity of \$54 million as of September 30, 2006. The transaction, which has received regulatory approval, is expected to close in the first calendar quarter of 2007, pending First Federal shareholder approval.

NOTE C Dividends

On January 12, 2007 the Company paid its 96th consecutive quarterly cash dividend. Dividends per share amounted to 20.5 cents for the quarter ended December 31, 2006 compared with 20 cents for the same period one year ago.

NOTE D Comprehensive Income

The Company's comprehensive income includes all items which comprise net income plus the unrealized gains (losses) on available-for-sale securities. Total comprehensive income for the quarters ended December 31, 2006 and 2005 totaled \$33,663,000 and \$27,350,000, respectively. The difference between the Company's net income and total comprehensive income for the quarter ended December 31, 2006 equals the change in the net unrealized gain or loss on available-for-sale securities of \$441,000. Net of tax of \$162,000, the change was \$279,000.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)

NOTE E Allowance for Losses on Loans

The following table summarizes the activity in the allowance for loan losses for the quarters ended December 31, 2006 and 2005:

	Quarter	
	Ended December 31,	2005
	2006	2005
	(In thousands)	
Balance at beginning of period	\$ 24,993	\$ 24,756
Provision for (reversal of) loan losses	50	
Charge-offs	(22)	(20)
Recoveries		
Balance at end of period	\$ 25,021	\$ 24,736

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q includes certain forward-looking statements, as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934, based on current management expectations. Actual results could differ materially from those management expectations. Such forward-looking statements include statements regarding the Company's intentions, beliefs or current expectations as well as the assumptions on which such statements are based. Stockholders and potential stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to: general economic conditions; legislative and regulatory changes; monetary fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; cost of funds; demand for loan products; demand for financial services; competition; changes in the quality or composition of the Company's loan and investment portfolios; changes in accounting principles; policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and fees. The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

GENERAL

Washington Federal, Inc. (Company) is a savings and loan holding company. The Company's primary operating subsidiary is Washington Federal Savings.

INTEREST RATE RISK

The Company assumes a high level of interest rate risk as a result of its policy to originate and hold for investment fixed-rate single-family home loans, which are longer-term in nature than the short-term characteristics of its liabilities of customer accounts and borrowed money. At December 31, 2006, the Company had a negative one-year maturity gap of approximately 36% of total assets, compared to a 34% negative one-year maturity gap as of September 30, 2006. The increase in interest rate risk is the result of the Company using short-term borrowings and deposits to fund the growth of longer-term assets over the course of the last quarter.