WACHOVIA CORP NEW
Form 10-Q
May 15, 2002

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 March 31, 2002
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 1-10000

WACHOVIA CORPORATION
(Exact name of registrant as specified in its charter)

NORTH CAROLINA	56-0898180
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

WACHOVIA CORPORATION
ONE WACHOVIA CENTER
CHARLOTTE, NORTH CAROLINA 28288-0013
(Address of principal executive offices)
(Zip Code)

(704) 374-6565
(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 X No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
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.

1,368,629,807 shares of Common Stock, par value $3.33 1/3 per share, were outstanding as of April 30, 2002.

==

Wachovia Corporation (formerly named First Union Corporation, "Wachovia") may from time to time make written or oral forward-looking statements, including statements contained in Wachovia's filings with the Securities and Exchange Commission (including this Quarterly Report on Form 10-Q and the Exhibits hereto and thereto), in its reports to stockholders and in other Wachovia communications, which are made in good faith by Wachovia pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include, among others, statements with respect to Wachovia's beliefs, plans, objectives, goals, guidelines, expectations, financial condition, results of operations, future performance and business of Wachovia, including without limitation, (i) statements relating to the benefits of the merger between the former Wachovia Corporation ("Legacy Wachovia") and Wachovia completed on September 1, 2001 (the "Merger"), including future financial and operating results, cost savings, enhanced revenues, and the accretion to reported earnings that may be realized from the Merger, (ii) statements regarding certain of Wachovia's goals and expectations with respect to earnings, earnings per share, revenue, expenses, and the growth rate in such items, as well as other measures of economic performance, including statements relating to estimates of credit quality trends, and (iii) statements preceded by, followed by or that include the words "may", "could", "should", "would", "believe", "anticipate", "estimate", "expect", "intend", "plan", "projects" or similar expressions. These forward-looking statements involve certain risks and uncertainties that are subject to change based on various factors (many of which are beyond Wachovia's control). The following factors, among others, could cause Wachovia's financial performance to differ materially from that expressed in such forward-looking statements: (1) the risk that the businesses of Wachovia and Legacy Wachovia in connection with the Merger will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected; (2) expected revenue synergies and cost savings from the Merger may not be fully realized or realized within the expected time frame; (3) revenues following the Merger may be lower than expected; (4) deposit attrition, operating costs, customer loss and business disruption following the Merger, including, without limitation, difficulties in maintaining relationships with employees, may be greater than expected; (5) the strength of the United States economy in general and the strength of the local economies in which Wachovia conducts operations may be different than expected resulting in, among other things, a deterioration in credit quality or a reduced demand for credit, including the resultant effect on Wachovia's loan portfolio and allowance for loan losses; (6) the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; (7) inflation, interest rate, market and monetary fluctuations; (8) adverse conditions in the stock market, the public debt market and other capital markets (including changes in interest rate conditions) and the impact of such conditions on Wachovia's capital markets and capital management activities, including, without limitation, Wachovia's mergers and acquisition advisory business, equity and debt underwriting activities, private equity investment activities, derivative securities activities, investment and wealth management advisory businesses, and brokerage activities; (9) the timely development of competitive new products and services by Wachovia and the acceptance of these products and services by new and existing customers; (10)

the willingness of customers to accept third party products marketed by Wachovia; (11) the willingness of customers to substitute competitors' products and services for Wachovia's products and services and vice versa; (12) the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); (13) technological changes; (14) changes in consumer spending and saving habits; (15) the effect of corporate restructurings, acquisitions and/or dispositions, including, without limitation, the Merger, and the actual restructuring and other charges related thereto, and the failure to achieve the expected revenue growth and/or expense savings from such corporate restructurings, acquisitions and/or dispositions; (16) the growth and profitability of Wachovia's noninterest or fee income being less than expected; (17) unanticipated regulatory or judicial proceedings; (18) the impact of changes in accounting policies by the Securities and Exchange Commission; (19) adverse changes in financial performance and/or condition of Wachovia's borrowers which could impact repayment of such borrowers' outstanding loans; (20) the impact on Wachovia's businesses, as well as on the risks set forth above, of various domestic or international military or terrorist activities or conflicts; and (21) Wachovia's success at managing the risks involved in the foregoing.

Wachovia cautions that the foregoing list of important factors is not exclusive. Wachovia does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of Wachovia.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

The following unaudited consolidated financial statements of Wachovia within Item 1 include, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for fair presentation of such consolidated financial statements for the periods indicated.

Notes to Consolidated Financial Statement begin on the next page.

NOTE 1: BASIC AND DILUTED EARNINGS PER COMMON SHARE

The calculation of basic and diluted earnings per common share for the three months ended March 31, 2002 and March 31, 2001, is presented below.

(In millions, except per share data)	
Income before dividends on preferred stock	$
Less imputed interest on the Company's transactions in its common stock	
Income available to common stockholders before dividends on preferred stock	
Dividends on preferred stock	
Income available to common stockholders	$
Basic earnings per common share	$
Diluted earnings per common share	$
Average common shares - basic	
Common share equivalents, unvested restricted stock, incremental common shares from forward purchase contracts and convertible long-term debt assumed converted	
Average common shares - diluted	

NOTE 2: GOODWILL AND OTHER INTANGIBLE ASSETS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") 142, Goodwill and Other Intangible Assets. Under the provisions of SFAS 142, goodwill and identified intangible assets with indefinite useful lives are not subject to amortization. Rather they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate that there may be impairment. Identified intangible assets that have a finite useful life are amortized over that life in a manner that reflects the estimated decline in the economic value of the identified intangible asset and are reviewed for impairment when events or circumstances indicate that there may be impairment.

The Company adopted the provisions of SFAS 142 on January 1, 2002. Under the provisions of SFAS 142, all amortization of goodwill and identified intangible assets with indefinite useful lives ceased. Also under SFAS 142, all goodwill and identified intangible assets with an indefinite useful life must be tested for impairment as of January 1, 2002, and annually thereafter. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying value. If the fair value is less than the carrying value, a further test is required to measure the amount of goodwill impairment.

The Company's impairment evaluation as of January 1, 2002, under the new standard indicated that none of the Company's goodwill was impaired.

Net income and earnings per share amounts adjusted to exclude goodwill amortization expense for the three months ended March 31, 2002 and March 31, 2001, are presented below.

Three Months Ended

(Dollars in millions, except per share data)	March 31, 2002	2001
Reported net income available to common stockholders	$ 907	584
Less imputed interest on the Company's transactions in its common stock	--	(7)
Add back goodwill amortization	--	60
Adjusted net income available to common stockholders	$ 907	637
BASIC EARNINGS PER COMMON SHARE		
Reported net income available to common stockholders	$ 0.67	0.60
Add back goodwill amortization	--	0.06
Adjusted net income available to common stockholders	$ 0.67	0.66
DILUTED EARNINGS PER COMMON SHARE		
Reported net income available to common stockholders	$ 0.66	0.59
Add back goodwill amortization	--	0.06
Adjusted net income available to common stockholders	$ 0.66	0.65
INTANGIBLE AMORTIZATION		
Identified intangible assets		
Deposit base	$ 160	17
Customer relationships	8	1
Total	168	18
Servicing assets	15	10
Total intangible amortization	$ 183	28

According to SFAS 142, a reporting unit is an operating segment or one level below an operating segment. The Company determined that lines of business were its reporting units. The changes in the carrying amount of goodwill related to each of the Company's business segments for the three months ended March 31, 2002, are presented below.

(In millions)	General Bank	Capital Management	Wealth Management	Corpora a Investme Ba
Balance, January 1, 2002	$ 6,835	1,548	467	1,7
Purchase accounting adjustments	70	6	14	
Balance, March 31, 2002	$ 6,905	1,554	481	1,7

At March 31, 2002, and at December 31, 2001, the Company had $90 million assigned to its tradename which, based on its indefinite useful life, is not subject to amortization under SFAS 142.

The gross carrying amount, accumulated amortization and weighted average amortization period for each of the Company's identified intangible assets subject to amortization at March 31, 2002, and at December 31, 2001, is presented below.

	MARCH 31, 2002				
(In millions)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	WEIGHTED AVERAGE AMORTIZATION IN YEARS	Gross Carrying Amount	Accumula Amortizat
Deposit base	$ 2,536	875	7	2,536	
Customer relationships	261	24	16	261	
Servicing assets	378	124	21	375	
Total	$ 3,175	1,023		3,172	

The estimated annual identified intangible assets amortization in each of the five years subsequent to December 31, 2001, is as follows (in millions): 2002, $673; 2003, $541; 2004, $413; 2005, $286; and 2006, $170.

NOTE 3: TRANSACTIONS BY THE COMPANY IN ITS OWN STOCK

The Company has used forward equity sales transactions ("equity forwards") and forward purchase contracts in connection with its stock repurchase program. These contracts were entered into in 1999 and 2000. They mature at various dates in 2002. The Company has also entered into option contracts in its stock to offset potential dilution from the exercise of stock options in future years. These option contracts involve the contemporaneous purchase of a call option and the sale of a put option to the same counterparty ("collar transactions"). These collar transactions were entered into in 1999 and 2000. They mature at various dates in 2003.

The use of equity forwards provided the Company with the ability to purchase shares under the stock repurchase program in the open market and then issue shares in a private transaction to the counterparty in the amount necessary to maintain targeted capital ratios. Under the terms of the equity forward, the Company issued shares of common stock to an investment banking firm at a specified price that approximated market value. Simultaneously, the Company entered into a forward contract with the same counterparty to repurchase the shares at the same price plus a premium that accrues over the life of the contract, net of dividends paid to the counterparty (the "forward price"). The maturity date can be extended by mutual consent of the counterparties.

Under the terms of the forward purchase contracts, the Company has agreed to purchase shares on a specific future date at the forward price. The counterparties to these contracts generally purchase the shares to which the contract is subject in the open market and hold the shares for the duration of the contract. The maturity dates can be extended by mutual consent of the counterparties.

The terms of the forward contracts provide three settlement alternatives and the method selected to settle any contract is at the sole discretion of the Company: gross physical settlement where the Company pays the forward price to the counterparty in cash and takes delivery of the shares, and net share or net cash settlement where the difference between the forward price and the market price is settled in shares or cash, respectively. Under the net settlement method, if the forward price is less than the market price, the Company would receive shares or cash, and if the forward price is greater than the market price, the Company would deliver shares or cash. If the Company were to elect net share settlement on any of these contracts, the calculation of the number of net shares to be received or delivered would be based on the market price of the Company's shares at settlement. The collar transactions are subject to the same settlement alternatives.

These transactions are accounted for as equity. In calculating diluted earnings per share, the premium component of the forward price on equity forward contracts is subtracted in calculating income available to common stockholders. For forward purchase contracts, diluted shares include the share equivalent of the excess of the forward price over the current market price of the shares. In the first quarter of 2002, the premium component of the equity forward was anti-dilutive.

The Company has stated its intent to settle the equity forward and the forward purchase contracts over the next few years.

Information related to these contracts at March 31, 2002, is presented below.

	March			
(In thousands, except per share amounts)	Forward/ Strike Price	Number of Shares	Total Value of the Contract	Sh I
Type of contract				
Equity forward	$38.77	2,740	$106,230	
Forward purchase contract	48.75	8,783	428,160	
Forward purchase contract	31.82	24,314	773,656	
Put options in connection with collars (a)	$33.17	7,592	$251,828	

(a) Represents the weighted average strike price of the put options. The strike prices range from $31.39 to $34.72.
(b) This represents the maximum number of shares that the Company could be required to deliver under a net share settlement and would only occur if there was a precipitous decline in the Company's share price to an amount less than a weighted average of $4.03 per share for all contracts.

The Company has also sold put options with a weighted average strike price of $3.28 on 287 million shares of its common stock. The put options must be settled on a gross physical basis, and accordingly, are accounted for as liabilities. The put options were entered into in 1999 and 2000 and mature at various dates in 2002.

WACHOVIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF INCOME
CONSOLIDATED STATEMENTS OF CASH FLOWS

The Consolidated Balance Sheets of Wachovia and subsidiaries at March 31, 2002, March 31, 2001, and December 31, 2001, respectively, set forth on page 57 of Wachovia's First Quarter 2002 Financial Supplement for the three months ended March 31, 2002 (the "Financial Supplement"), are incorporated herein by reference.

The Consolidated Statements of Income (Loss) of Wachovia and subsidiaries for the three months ended March 31, 2002 and 2001, set forth on page 58 of the Financial Supplement, are incorporated herein by reference.

The Consolidated Statements of Cash Flows of Wachovia and subsidiaries for the three months ended March 31, 2002 and 2001, set forth on page 59 of the Financial Supplement, are incorporated herein by reference.

A copy of the Financial Supplement is being filed as Exhibit (19) to this Report.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations appears on pages 2 through 24 of the Financial Supplement and is incorporated herein by reference.

A copy of the Financial Supplement is being filed as Exhibit (19) to this Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Quantitative and Qualitative Disclosures About Market Risk appears on pages 20 through 22 and pages 49 through 52 of the Financial Supplement and is incorporated herein by reference.

A copy of the Financial Supplement is being filed as Exhibit (19) to this Report.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On July 26, 2000, a jury in the Philadelphia County (PA) Court of Common Pleas returned a verdict in the case captioned Pioneer Commercial Funding Corporation v. American Financial Mortgage Corporation, CoreStates Bank, N.A., et al. The verdict against CoreStates Bank, N.A. ("CoreStates"), a predecessor of First Union National Bank, included consequential damages of $13.5 million and punitive damages of $337.5 million. The trial court had earlier directed a verdict against CoreStates for compensatory damages of $1.7 million. The plaintiff, who was not a CoreStates customer, alleged that the sum of $1.7 million, which it claims it owned, was improperly setoff by CoreStates. Upon our motion, the trial court reduced the amount of the punitive damages award to $40.5 million in December 2000. We believe that numerous reversible errors occurred at the trial, and that the facts do not support the damages awards. In March 2002, the Pennsylvania Superior Court vacated the award of punitive damages, affirmed the awards of consequential and compensatory damages and remanded the case for a new trial on punitive damages. We have petitioned the Pennsylvania Superior Court to allow re-argument and await a decision on the petition. We will continue to vigorously pursue our rights of appeal. We believe, after consultation with external counsel, that the ultimate outcome of this litigation will not have a material adverse effect on our consolidated financial condition.

On March 25, 2002, a judgment was entered on a jury verdict in the Circuit Court for Baltimore City, Maryland in the case captioned Steele Software Systems Corporation v. First Union National Bank. The verdict includes compensatory damages of $39.5 million and punitive damages of $200 million. The plaintiff, a vendor which provided real estate settlement services, alleged that First Union National Bank misled the plaintiff into entering into a services agreement with First Union National Bank, and subsequently breached that agreement. Wachovia has filed a motion in the trial court seeking a judgment notwithstanding the verdict, a new trial or relief from the punitive damages award. Wachovia believes that numerous reversible errors occurred at the trial, and that the facts do not support the damages awards. Wachovia will vigorously pursue its pending post-trial motions and its right of appeal. Wachovia believes, after consultation with external counsel, that while the ultimate outcome of this litigation cannot be estimated at this time, it will not have a material adverse effect on Wachovia's consolidated financial condition.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

In 1999, in connection with its stock repurchase program, Wachovia sold 17 million shares of its common stock to an investment banking firm. In connection therewith, Wachovia agreed to repurchase the 17 million shares or otherwise settle the contract, at Wachovia's option. In October 2000, Wachovia repurchased 4 million of those shares and in August 2001, Wachovia repurchased an additional 10 million shares leaving 3 million shares to be repurchased as of March 31, 2002. The offer and sale of the shares of common stock by Wachovia were exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof because such offer and sale did not involve a public offering.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At the Annual Meeting of Stockholders of Wachovia held on April 16, 2002, the following proposals were submitted to a vote of the holders of Wachovia's common stock voting as indicated:

1. Approval of a proposal to elect the following individuals as directors of Wachovia:

	FOR	WITHHELD
Class I directors:		
John D. Baker, II	1,095,005,590	56,975,881
Leslie M. Baker, Jr.	1,099,767,352	52,214,119
Robert J. Brown	1,101,020,067	50,961,404
Peter C. Browning	1,101,299,432	50,682,039
G. Kennedy Thompson	1,095,121,932	56,859,539
John C. Whitaker, Jr.	1,101,260,700	50,720,771
Class II directors:		
F. Duane Ackerman	1,095,103,657	56,877,814
John T. Casteen, III	1,094,879,482	57,101,989
Robert A. Ingram	1,101,618,751	50,362,720

Class III directors:		
James S. Balloun	1,101,500,944	50,480,527
Lloyd U. Noland	1,101,984,755	49,996,716
Dona Davis Young	1,101,074,031	50,907,440

2. Approval of a proposal to ratify the appointment of KPMG LLP as Wachovia's auditors for 2002:

FOR	AGAINST	ABSTAIN
1,117,175,828	28,383,409	6,422,234

3. Approval of a proposal to amend Wachovia's articles of incorporation to allow stockholders owning at least 25% of outstanding shares of Wachovia common stock entitled to vote to call a special meeting of stockholders:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
870,326,360	23,714,947	11,461,458	246,478,706

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

EXHIBIT NO.	DESCRIPTION
(4)	Instruments defining the rights of security holders, including indentures.*
(12)(a)	Computations of Consolidated Ratios of Earnings to Fixed Charges.
(12)(b)	Computations of Consolidated Ratios of Earnings to Fixed Charges and Preferred Stock Dividends
(19)	Wachovia's First Quarter 2002 Financial Supplement.

* Wachovia agrees to furnish to the Commission upon request, copies of the instruments, including indentures, defining the rights of the holders of the long-term debt of Wachovia and its consolidated subsidiaries.

(b) Reports on Form 8-K.

During the quarter ended March 31, 2002, a Current Report on Form 8-K, dated January 23, 2002, was filed with the Commission by Wachovia. In addition, a Current Report on Form 8-K dated April 18, 2002, has been filed with the Commission by Wachovia.

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.

WACHOVIA CORPORATION

Date: May 15, 2002

By: /s/ DAVID M. JULIAN

David M. Julian
Senior Vice President and Corporate Controller
(Principal Accounting Officer)

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
(4)	Instruments defining the rights of security holders, including indentures.*
(12)(a)	Computations of Consolidated Ratios of Earnings to Fixed Charges.
(12)(b)	Computations of Consolidated Ratios of Earnings to Fixed Charges and Preferred Stock Dividends.
(19)	Wachovia's First Quarter 2002 Financial Supplement.

* Wachovia agrees to furnish to the Commission upon request, copies of the instruments, including indentures, defining the rights of the holders of the long-term debt of Wachovia and its consolidated subsidiaries.