

WACHOVIA CORP NEW  
Form 10-Q  
November 03, 2006

**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 September 30, 2006**

**OR**

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

**Commission file number 1-10000**

**Wachovia Corporation**

(Exact name of registrant as specified in its charter)

**North Carolina**  
(State or other jurisdiction of  
incorporation or organization)

**56-0898180**  
(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 ☒ 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 (defined in Rule 12b-2 of the Exchange Act). Yes ☐ 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.

1,581,192,967 shares of Common Stock, par value \$3.33 1/3 per share, were outstanding as of September 30, 2006.



### Forward-Looking Statements

*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. These statements relate to future, not past, events. 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 Golden West Financial Corporation (Golden West) and Wachovia completed on October 1, 2006 (the Golden West Merger), including future financial and operating results, cost savings, enhanced revenues and the accretion/dilution of reported earnings that may be realized from the Golden West Merger, (ii) statements relating to the benefits of the merger among Wachovia, Westcorp and WFS Financial Inc completed on March 1, 2006 (the Westcorp Merger), including future financial and operating results, cost savings, enhanced revenues and the accretion/dilution of reported earnings that may be realized from the Westcorp Merger, (iii) statements regarding 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 (iv) statements preceded by, followed by or that include the words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, projects, outlook or similar expressions. These statements are based upon the current beliefs and expectations of Wachovia's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. 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 any forward-looking statements: (1) the risk that the businesses of Wachovia and Golden West in connection with the Golden West Merger or the businesses of Wachovia, Westcorp and WFS Financial Inc in connection with the Westcorp Merger will not be integrated successfully or such integrations may be more difficult, time-consuming or costly than expected; (2) expected revenue synergies and cost savings from the Golden West Merger or the Westcorp Merger may not be fully realized or realized within the expected time frame; (3) revenues following the Golden West Merger or the Westcorp Merger may be lower than expected; (4) deposit attrition, operating costs, customer loss and business disruption following the Golden West Merger or the Westcorp 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 we may undertake from time to time, and the actual restructuring and other expenses 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 or rulings; (18) the impact of changes in accounting principles; (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 Consolidated Balance Sheets of Wachovia and subsidiaries at September 30, 2006, and December 31, 2005, respectively, set forth on page 64 of Wachovia's Third Quarter 2006 Financial Supplement for the nine months ended September 30, 2006 (the "Financial Supplement"), are incorporated herein by reference.

The Consolidated Statements of Income of Wachovia and subsidiaries for the three and nine months ended September 30, 2006 and 2005, set forth on page 65 of the Financial Supplement, are incorporated herein by reference.

The Consolidated Statements of Cash Flows of Wachovia and subsidiaries for the nine months ended September 30, 2006 and 2005, set forth on page 66 of the Financial Supplement, are incorporated herein by reference.

Notes to Consolidated Financial Statements, set forth on pages 67 through 84 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 62 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, pages 69 and 70, and pages 80 through 83 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 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures.* As of September 30, 2006, the end of the period covered by this Quarterly Report on Form 10-Q, Wachovia's management, including Wachovia's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, Wachovia's Chief Executive Officer and Chief Financial Officer each concluded that as of September 30, 2006, the end of the period covered by this Quarterly Report on Form 10-Q, Wachovia maintained effective disclosure controls and procedures.

*Changes in Internal Control Over Financial Reporting.* No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, Wachovia's internal control over financial reporting.

---

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

Wachovia and certain of our subsidiaries are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising from the conduct of our business activities. These proceedings include actions brought against Wachovia and/or its subsidiaries with respect to transactions in which Wachovia and/or our subsidiaries acted as banker, lender, underwriter, financial advisor or broker or in activities related thereto. In addition, Wachovia and its subsidiaries may be requested to provide information or otherwise cooperate with governmental authorities in the conduct of investigations of other persons or industry groups. It is Wachovia's policy to cooperate in all regulatory inquiries and investigations.

Although there can be no assurance as to the ultimate outcome, Wachovia and/or our subsidiaries have generally denied, or believe we have a meritorious defense and will deny, liability in all significant litigation pending against us, including the matters described in our 2005 Annual Report on Form 10-K, our 2006 First Quarter Report on Form 10-Q and our 2006 Second Quarter Report on Form 10-Q, and we intend to defend vigorously each such case. Reserves are established for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts reserved for those claims.

*Outlook.* Based on information currently available, advice of counsel, available insurance coverage and established reserves, Wachovia believes that the eventual outcome of the actions against Wachovia and/or its subsidiaries, including the matters described in our 2005 Annual Report on Form 10-K, our 2006 First Quarter Report on Form 10-Q and our 2006 Second Quarter Report on Form 10-Q, will not, individually or in the aggregate, have a material adverse effect on Wachovia's consolidated financial position or results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters, if unfavorable, may be material to Wachovia's results of operations for any particular period.

### **Item 1A. Risk Factors.**

Not applicable.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

#### ***Unregistered Sales of Equity Securities.***

Not applicable.

#### ***Purchases of Equity Securities by the Issuer and Affiliated Purchasers.***

In January 2004, our board of directors authorized the repurchase of 60 million shares of our common stock, which together with remaining authority from previous board authorizations in 1999 and 2000, permitted Wachovia to repurchase up to 123 million shares of our common stock as of January 15, 2004, the date that authorization was announced. In addition, on August 16, 2005, Wachovia announced that our board of directors authorized the repurchase of an additional 100 million shares of our common stock. Future stock repurchases may be private or open-market purchases, including block transactions, accelerated or delayed block transactions, forward transactions, collar transactions, and similar transactions. The amount and timing of stock repurchases will be based on various factors, such as management's assessment of Wachovia's capital structure and liquidity, the market price of Wachovia common stock compared to management's assessment of the stock's underlying value, and applicable regulatory, legal and accounting factors. In 2005, Wachovia repurchased 44.53 million shares of Wachovia common stock in the open market at an average cost of \$52.02 per share. In addition, Wachovia settled equity collar contracts in 2005 representing 7.5 million shares at an average cost of \$48.61 per share. Please see "Stockholders' Equity" on page 19 in the Financial Supplement, filed as Exhibit (19) to this Report, for additional information about Wachovia's share repurchases in the third quarter of 2006. The following table sets forth information about our stock repurchases for the three months ended September 30, 2006.

---

**Issuer Repurchases of Equity Securities**

Period (1)	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)
July 1, 2006 to July 31, 2006	2,408,000	\$ 53.85	2,408,000	56,313,415
August 1, 2006 to August 31, 2006				56,313,415
September 1, 2006 to September 30, 2006	7,750,000	54.73	7,750,000	48,563,415
Total	10,158,000	\$ 54.52	10,158,000	48,563,415

(1) Based on trade date, not settlement date.

(2) All of these shares were repurchased pursuant to publicly announced share repurchase programs. The nature of these repurchases were as follows:  
 July 2006 open market repurchases: 2.4 million shares;  
 August 2006 open market repurchases: none; and



September 2006  
open market  
repurchases:  
7.75 million  
shares. In  
addition to these  
repurchases,  
pursuant to  
Wachovia's  
employee stock  
option plans,  
participants may  
exercise  
Wachovia stock  
options by  
surrendering  
shares of  
Wachovia  
common stock  
the participants  
already own as  
payment of the  
option exercise  
price. Shares so  
surrendered by  
participants in  
Wachovia's  
employee stock  
option plans are  
repurchased  
pursuant to the  
terms of the  
applicable stock  
option plan and  
not pursuant to  
publicly  
announced share  
repurchase  
programs. For  
the quarter  
ended June 30,  
2006, the  
following shares  
of Wachovia  
common stock  
were  
surrendered by  
participants in  
Wachovia's  
employee stock  
option plans:

July 2006 2,764  
shares at an  
average price  
per share of  
\$54.00;  
August 2006  
25,256 shares at  
an average price  
per share of  
\$54.48; and  
September 2006  
9,147 shares at  
an average price  
per share of  
\$55.47.

- (3) On May 25, 1999, Wachovia announced a stock repurchase program pursuant to which Wachovia was authorized to repurchase up to 50 million shares of its common stock. On June 26, 2000, Wachovia announced a stock repurchase program pursuant to which Wachovia was authorized to repurchase up to 50 million shares of its common stock. On January 15, 2004, Wachovia announced a stock repurchase program pursuant to which Wachovia was authorized to repurchase up to 60 million shares of its

common stock.

On August 16, 2005, Wachovia announced a stock repurchase program pursuant to which Wachovia was authorized to repurchase up to 100 million shares of its common stock.

None of these programs has an expiration date and each respective program expires upon completion of repurchases totaling the amount authorized for repurchase.

During the second quarter of 2004, all remaining shares authorized under the May 1999 authorization, which totaled approximately 5.2 million shares at the beginning of the quarter, were repurchased.

During the first quarter of 2005, all remaining shares authorized under the June 2000 authorization, which totaled approximately 15.7 million shares at the beginning of the

quarter, were repurchased. During the first quarter of 2006, all remaining shares authorized under the January 2004 authorization, which totaled approximately 23.6 million shares at the beginning of the quarter, were repurchased. As of September 30, 2006, there are no more shares remaining under the May 1999, June 2000 and January 2004 authorizations, and approximately 48.56 million shares remaining under the August 2005 authorization.

**Item 4. Submission of Matters to a Vote of Security Holders.**

On August 31, 2006, Wachovia held a special meeting of shareholders for the purpose of considering two proposals as described below. Both proposals were approved at the special meeting of shareholders and the following sets forth the vote on each proposal:

1. Proposal to approve the issuance of shares of Wachovia common stock as consideration in the proposed merger of Golden West Financial Corporation with and into a wholly-owned subsidiary of Wachovia, pursuant to an Agreement and Plan of Merger, dated as of May 7, 2006, by and among Wachovia, Golden West and such wholly-owned subsidiary of Wachovia:

---

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
1,043,584,611	58,722,062	18,467,928	0

2. Proposal to approve the Amended and Restated Wachovia Corporation 2003 Stock Incentive Plan:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
965,020,376	130,866,791	24,883,143	0

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

*(a) Exhibits.*

Exhibit No.	Description
(4)	Instruments defining the rights of security holders, including indentures.*
(10)(a)	Amended and Restated Wachovia Corporation 2003 Stock Incentive Plan. (Incorporated by reference to Appendix E to Wachovia's Registration Statement on Form S-4 (Reg. No. 333-134656) filed with the Commission on July 24, 2006.)
(10)(b)	Ernest S. Rady compensation arrangement.
(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 Third Quarter 2006 Financial Supplement.
(31)(a)	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31)(b)	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32)(b)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(99)	Wachovia and Golden West Unaudited Pro Forma Condensed Combined Financial Information.

\* 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 September 30, 2006, Wachovia filed the following Current Reports on Form 8-K with the Commission:

Current Report on Form 8-K dated July 20, 2006, reporting Item 2.02 and Item 8.01, which Item 8.01 contained financial statements filed as Exhibit 99(c), relating to the announcement of Wachovia's second quarter 2006 earnings results.

Current Report on Form 8-K dated August 2, 2006, reporting Item 8.01, regarding the issuance by Wachovia of 750,000,000 4.375% Notes due August 1, 2016 and 1,500,000,000 Floating Rate Notes due August 2011 under its Euro Medium Term Note Programme.

Current Report on Form 8-K dated August 22, 2006, reporting Item 8.01, regarding an increase in the dividend payable on Wachovia's common stock.

In addition, Wachovia filed the following Current Reports on Form 8-K with the Commission:

---

Current Report on Form 8-K dated October 2, 2006, reporting (a) Item 2.01, regarding the completion of Wachovia's acquisition of Golden West Financial Corporation by merger into a subsidiary of Wachovia, (b) Item 5.02, regarding the election of 2 new directors as a result of the Golden West acquisition and the election of a third director effective November 1, 2006, and (c) Item 9.01, regarding historical and pro forma financial statements relating to the Golden West acquisition.

Current Report on Form 8-K dated October 16, 2006, reporting Item 2.02, which Item 2.02 contained financial statements filed as Exhibit 99(c), relating to the announcement of Wachovia's third quarter 2006 earnings results.

Current Report on Form 8-K dated October 19, 2006, reporting Item 5.02, regarding the appointment of a new interim Corporate Controller and Principal Accounting Officer for 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: November 3, 2006

By: /s/ Thomas J. Wurtz

**Thomas J. Wurtz**  
**Senior Executive Vice President and**  
**Chief Financial Officer (Principal Financial**  
**Officer)**

---



# EXHIBIT INDEX

Exhibit No.	Description
(4)	Instruments defining the rights of security holders, including indentures.*
(10)(a)	Amended and Restated Wachovia Corporation 2003 Stock Incentive Plan. (Incorporated by reference to Appendix E to Wachovia's Registration Statement on Form S-4 (Reg. No. 333-134656) filed with the Commission on July 24, 2006.)
(10)(b)	Ernest S. Rady compensation arrangement.
(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 Third Quarter 2006 Financial Supplement.
(31)(a)	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31)(b)	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)(a)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32)(b)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(99)	Wachovia and Golden West Unaudited Pro Forma Condensed Combined Financial Information.

\* 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.