

UNITED BANKSHARES INC/WV

Form 10-Q

August 04, 2005

Table of Contents

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarter Ended June 30, 2005

Or

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

Commission File Number: 0-13322

United Bankshares, Inc.

(Exact name of registrant as specified in its charter)

West Virginia
(State or other jurisdiction of
incorporation or organization)

55-0641179
(I.R.S. Employer
Identification No.)

300 United Center
500 Virginia Street, East
Charleston, West Virginia

25301
Zip Code

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: (304) 424-8800

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 an accelerated filer (as defined in Rule 12b-2 of the Act.) **Yes No**

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

Class Common Stock, \$2.50 Par Value; 42,428,191 shares outstanding as of July 31, 2005.

UNITED BANKSHARES, INC. AND SUBSIDIARIES
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Page

Item 1. Financial Statements

Consolidated Balance Sheets (Unaudited) June 30, 2005 and December 31, 2004

4

<u>Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2005 and 2004</u>	5
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the Six Months Ended June 30, 2005</u>	7
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2005 and 2004</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	42
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 3. Defaults Upon Senior Securities</u>	43
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	43
<u>Item 5. Other Information</u>	44
<u>Item 6. Exhibits</u>	44
<u>Signatures</u>	45
Exhibits	46
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

The June 30, 2005 and December 31, 2004, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries, the related consolidated statements of income for the three and six months ended June 30, 2005 and 2004, the related consolidated statement of changes in shareholders' equity for the six months ended June 30, 2005, the related condensed consolidated statements of cash flows for the six months ended June 30, 2005 and 2004, and the notes to consolidated financial statements appear on the following pages.

3

Table of Contents**CONSOLIDATED BALANCE SHEETS**

UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except par value)	June 30 2005 (Unaudited)	December 31 2004 (Note 1)
Assets		
Cash and due from banks	\$ 148,548	\$ 132,306
Interest-bearing deposits with other banks	56,232	21,159
Federal funds sold	5,505	
 Total cash and cash equivalents	 210,285	 153,465
Securities available for sale at estimated fair value (amortized cost-\$1,208,193 at June 30, 2005 and \$1,266,931 at December 31, 2004)	1,210,780	1,277,160
Securities held to maturity (estimated fair value-\$240,229 at June 30, 2005 and \$241,592 at December 31, 2004)	231,627	233,282
Loans held for sale	3,232	3,981
Loans	4,529,049	4,424,702
Less: Unearned income	(6,472)	(6,426)
 Loans net of unearned income	 4,522,577	 4,418,276
Less: Allowance for loan losses	(43,585)	(43,365)
 Net loans	 4,478,992	 4,374,911
Bank premises and equipment	40,503	41,564
Goodwill	166,852	166,926
Accrued interest receivable	28,008	27,371
Other assets	158,421	157,311
 TOTAL ASSETS	 \$6,528,700	 \$6,435,971
 Liabilities		
Deposits:		
Noninterest-bearing	\$ 964,293	\$ 885,339
Interest-bearing	3,549,648	3,412,224
 Total deposits	 4,513,941	 4,297,563
Borrowings:		
Federal funds purchased	61,520	131,106
Securities sold under agreements to repurchase	555,035	546,425
Federal Home Loan Bank borrowings	607,729	669,322
Other short-term borrowings	3,468	4,427
Other long-term borrowings	89,173	89,433
Allowance for lending-related commitments	8,048	7,988
Accrued expenses and other liabilities	53,273	58,200

TOTAL LIABILITIES	5,892,187	5,804,464
Shareholders Equity		
Common stock, \$2.50 par value; Authorized-100,000,000 shares; issued-44,320,832 at June 30, 2005 and December 31, 2004, including 1,803,235 and 1,312,387 shares in treasury at June 30, 2005 and December 31, 2004, respectively	110,802	110,802
Surplus	99,083	99,773
Retained earnings	486,457	459,393
Accumulated other comprehensive (loss) income	(982)	3,739
Treasury stock, at cost	(58,847)	(42,200)
TOTAL SHAREHOLDERS EQUITY	636,513	631,507
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$6,528,700	\$6,435,971

See notes to consolidated unaudited financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Interest income				
Interest and fees on loans	\$66,024	\$55,227	\$129,090	\$110,786
Interest on federal funds sold and other short-term investments	220	108	346	184
Interest and dividends on securities:				
Taxable	13,653	13,523	27,659	26,985
Tax-exempt	2,282	2,102	4,360	4,156
Total interest income	82,179	70,960	161,455	142,111
Interest expense				
Interest on deposits	16,633	11,284	31,320	22,191
Interest on short-term borrowings	4,013	1,662	7,427	3,241
Interest on long-term borrowings	8,075	8,769	16,260	17,683
Total interest expense	28,721	21,715	55,007	43,115
Net interest income	53,458	49,245	106,448	98,996
Provision for credit losses	504	539	1,615	1,896
Net interest income after provision for credit losses	52,954	48,706	104,833	97,100
Other income				
Fees from trust and brokerage services	2,741	2,663	5,499	5,233
Service charges, commissions, and fees	8,517	9,056	16,339	17,539
Income from bank-owned life insurance	1,459	1,018	2,423	2,017
Income from mortgage banking operations	227	242	353	410
Security gains	58	106	982	820
Other income	357	616	682	1,245
Total other income	13,359	13,701	26,278	27,264
Other expense				
Salaries and employee benefits	14,921	14,175	28,987	28,286
Net occupancy expense	3,051	3,033	6,146	6,246
Equipment expense	1,673	1,870	3,313	3,850
Data processing expense	1,535	1,144	2,868	2,212
Other expense	9,397	9,251	18,004	18,503
Total other expense	30,577	29,473	59,318	59,097
	35,736	32,934	71,793	65,267

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Income from continuing operations before income taxes				
Income taxes	11,222	10,477	22,519	20,203
Income from continuing operations	24,514	22,457	49,274	45,064
Income from discontinued operations before income taxes		2,445		3,688
Income taxes		688		1,034
Income from discontinued operations		1,757		2,654
Net income	\$24,514	\$24,214	\$ 49,274	\$ 47,718

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME (Unaudited) - continued**
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Earnings per common share from continuing operations:				
Basic	\$ 0.57	\$ 0.52	\$ 1.15	\$ 1.03
Diluted	\$ 0.57	\$ 0.51	\$ 1.14	\$ 1.02
Earnings per common share from discontinued operations:				
Basic		\$ 0.04		\$ 0.06
Diluted		\$ 0.04		\$ 0.06
Earnings per common share:				
Basic	\$ 0.57	\$ 0.56	\$ 1.15	\$ 1.09
Diluted	\$ 0.57	\$ 0.55	\$ 1.14	\$ 1.08
Dividends per common share	\$ 0.26	\$ 0.25	\$ 0.52	\$ 0.50
Average outstanding shares:				
Basic	42,659,573	43,511,510	42,779,299	43,595,898
Diluted	43,121,982	44,005,011	43,269,361	44,131,285

See notes to consolidated unaudited financial statements.

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)**

UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share data)

	Six Months Ended June 30, 2005						
	Common Stock Par		Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Treasury Stock
Shares	Value	Earnings			Income	Stock	
Balance at January 1, 2005	44,320,832	\$ 110,802	\$99,773	\$459,393	\$ 3,739	(\$42,200)	\$631,507
Comprehensive income:							
Net income				49,274			49,274
Other comprehensive income, net of tax:							
Unrealized loss on securities of \$4,330 net of reclassification adjustment for gains included in net income of \$638						(4,968)	(4,968)
Accretion of the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio						247	247
Total comprehensive income							44,553
Purchase of treasury stock (551,680 shares)						(18,626)	(18,626)
Cash dividends (\$0.52 per share)				(22,210)			(22,210)
Common stock options exercised			(690)			1,979	1,289

(60,832 shares)

Balance at								
June 30, 2005	44,320,832	\$ 110,802	\$ 99,083	\$ 486,457	(\$ 982)	(\$ 58,847)	\$ 636,513	

See notes to consolidated unaudited financial statements

7

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands)

	Six Months Ended June 30	
	2005	2004
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES OF CONTINUING OPERATIONS	\$ 52,977	\$ (6,781)
INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities held to maturity	2,397	12,834
Purchases of securities held to maturity	(453)	(2,645)
Proceeds from sales of securities available for sale	192,021	214,146
Proceeds from maturities and calls of securities available for sale	100,842	189,293
Purchases of securities available for sale	(236,035)	(304,228)
Net purchases of bank-owned life insurance		(13,826)
Net purchases of bank premises and equipment	(1,360)	(1,813)
Net change in loans	(106,615)	(221,804)
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(49,203)	(128,043)
FINANCING ACTIVITIES		
Cash dividends paid	(22,338)	(21,831)
Acquisition of treasury stock	(18,626)	(19,238)
Proceeds from exercise of stock options	1,231	2,996
Repayment of long-term Federal Home Loan Bank borrowings	(126,664)	(44,000)
Proceeds from long-term Federal Home Loan Bank borrowings	150,000	
Changes in:		
Deposits	216,378	174,783
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	(146,935)	11,124
NET CASH PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	53,046	103,834
NET CASH USED IN DISCONTINUED OPERATIONS		(345)
Increase (Decrease) in cash and cash equivalents	56,820	(31,335)
Cash and cash equivalents at beginning of year, continuing operations	153,465	249,118
Cash and cash equivalents at beginning of year, discontinued operations		5,823

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Cash and cash equivalents at beginning of year	153,465	254,941
Cash and cash equivalents at end of period, continuing operations	\$ 210,285	\$ 218,128
Cash and cash equivalents at end of period, discontinued operations		5,478
Cash and cash equivalents at end of period	\$ 210,285	\$ 223,606

See notes to consolidated unaudited financial statements.

8

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****UNITED BANKSHARES, INC. AND SUBSIDIARIES****1. GENERAL**

The accompanying unaudited consolidated interim financial statements of United Bankshares, Inc. and Subsidiaries (United) have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not contain all of the information and footnotes required by accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements presented as of June 30, 2005 and 2004 and for the three-month and six-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2004 has been extracted from the audited financial statements included in United s 2004 Annual Report to Shareholders. The accounting and reporting policies followed in the presentation of these financial statements are consistent with those applied in the preparation of the 2004 Annual Report of United on Form 10-K. In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim periods have been made. Such adjustments are of a normal and recurring nature.

The accompanying consolidated interim financial statements include the accounts of United and its wholly owned subsidiaries. United considers all of its principal business activities to be bank related. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Dollars are in thousands, except per share and share data.

New Accounting Standards: In June 2005, the Financial Accounting Standards Board (FASB) issued Statement No. 154 (SFAS 154), Accounting Changes and Error Corrections , a replacement of APB No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements . SFAS 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting for, and reporting of, a change in accounting principle. Previously, most voluntary changes in accounting principles were required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of FAS 154 is not expected to have a material impact on United s consolidated financial statements.

United has stock option plans for certain employees that are accounted for under the intrinsic value method. Because the exercise price at the date of the grant is equal to the market value of the stock, no compensation expense is recognized. In December 2004, FASB enacted Statement of Financial Accounting Standards 123 revised 2004 (SFAS 123R), Share-Based Payment which replaces Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation and supersedes

Table of Contents

APB Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees and amends FASB Statement No. 95, Statement of Cash Flows. SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value based method and the recording of such expense in our consolidated statements of income. In April 2005, the Securities and Exchange Commission (SEC) adopted a new rule amending the adoption date of SFAS 123R. Based on this new rule, registrants that are not small business issuers must adopt SFAS 123R no later than the beginning of the first fiscal year beginning after June 15, 2005. SFAS 123R may be adopted in one of two ways the modified prospective transition method or the modified retrospective transition method. United expects to adopt SFAS 123R using the modified prospective transition method. Prior to 2004, United disclosed pro forma compensation expense quarterly and annually by calculating the stock option grants fair value using the Black-Scholes model and disclosing the impact on net income and net income per share. For options granted in 2004, United used a binomial lattice model to value the options granted and determine the pro forma compensation expense presented in the table below. United intends to use this binomial lattice model to value future grants. SFAS 123R defines a lattice model as a model that produces an estimated fair value based on the assumed changes in prices of a financial instrument over successive periods of time. A binomial lattice model assumes at least two price movements are possible in each period of time.

United, as does the FASB, believes the use of a binomial lattice model for option valuation is capable of more fully reflecting certain characteristics of employee stock options compared to the Black-Scholes options pricing model. For United, the difference in fair values calculated under each option pricing model is immaterial. The table below reflects the estimated impact the fair value method would have had on United's net income and net income per share if SFAS 123R had been in effect for the three and six months ended June 30, 2005 and 2004. United will continue to evaluate the method of adoption and will begin to apply SFAS 123R as of the interim reporting period ending March 31, 2006, as required. United does not expect the adoption to have a material impact on its consolidated statements of income and net income per share.

The following pro forma disclosures present United's consolidated net income and diluted earnings per share, determined as if United had recognized compensation expense for its employee stock options based on the estimated fair value of the option at the date of grant amortized over the vesting period of the option:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Net Income, as reported	\$24,514	\$24,214	\$49,274	\$47,718
Less pro forma expense related to options granted, net of tax	(300)	(249)	(601)	(504)
Pro forma net income	\$24,214	\$23,965	\$48,673	\$47,214
Pro forma net income per share:				
Basic as reported	\$ 0.57	\$ 0.56	\$ 1.15	\$ 1.09
Basic pro forma	\$ 0.57	\$ 0.55	\$ 1.14	\$ 1.08
Diluted as reported	\$ 0.57	\$ 0.55	\$ 1.14	\$ 1.08
Diluted pro forma	\$ 0.56	\$ 0.54	\$ 1.12	\$ 1.07

Table of Contents

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current standards. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the company cannot estimate what those amounts will be in the future (because they depend on, among other things, the date employees exercise stock options), United did not recognize any such amounts in operating cash flows for the six months ended June 30, 2005 and 2004.

In March of 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107), Share-Based Payment. SAB 107 provides guidance regarding the application of SFAS 123R including option valuation methods, the accounting for income tax effects of share-based payment arrangements upon the adoption of SFAS 123R, and the required disclosures within filings made with the SEC related to the accounting for share-based payment transactions. United will provide SAB 107 required disclosures beginning in the interim reporting period ending March 31, 2006, as required.

2. DISCONTINUED OPERATIONS

On July 7, 2004, United closed the sale of its wholly owned mortgage banking subsidiary, George Mason Mortgage, LLC (Mason Mortgage) to Cardinal Financial Corporation (Cardinal) of McLean, Virginia for an amount equivalent to Mason Mortgage's net worth plus cash of \$17 million in exchange for all of the outstanding membership interests in Mason Mortgage. Mason Mortgage, which was previously reported as a separate segment, is presented as discontinued operations for all periods presented in these financial statements.