WEBSTER FINANCIAL CORP
Form 10-Q/A
August 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009.

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 001-31486

WEBSTER FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**06-1187536** **(I.R.S. Employer** **Identification No.)**
Webster Plaza, Waterbury, Connecticut **(Address of principal executive offices)**	**06702** **(Zip Code)**

(203) 465-4364

(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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

The number of shares of common stock, par value $.01 per share, outstanding as of July 29, 2009 was 68,124,642.

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Explanatory Note

Webster is filing this amended Form 10-Q for the sole and express purpose of correcting an error in the footnote setting forth the cumulative amount of other-than-temporary impairments at June 30, 2009 with respect to the available for sale equity securities portfolio. This amount is set forth in footnote (b) to the first table appearing in Note 4 to the condensed consolidated financial statements included herein.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by Webster s principal executive officer and principal financial officer are filed as exhibits to this Form 10-Q/A under Item 6 hereof. No other new exhibits are being filed herewith.

No other changes have been made to the Form 10-Q. This form 10-Q/A speaks as of the original filing date of the Form 10-Q, does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way disclosures made in the Form 10-Q.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share amounts)	**June 30, 2009 (unaudited)**	**December 31, 2008**
Assets:		
Cash and due from depository institutions	$ 254,638	$ 259,208
Short-term investments	8,216	22,154
Investment securities:		
Trading, at fair value		77
Available for sale, at fair value	1,405,872	1,188,705
Held-to-maturity, at amortized cost (fair value of $2,800,705 and $2,559,745, respectively)	2,767,965	2,522,511
Total investment securities	4,173,837	3,711,293
Loans held for sale	113,936	24,524
Loans, net	11,304,703	11,952,262
Federal Home Loan Bank and Federal Reserve Bank stock	137,874	134,874
Goodwill	529,887	529,887
Cash surrender value of life insurance	285,064	279,807
Premises and equipment, net	179,625	185,928
Other intangible assets, net	31,126	34,039
Deferred tax asset, net	153,745	189,337
Accrued interest receivable and other assets	279,925	260,224
Total assets	$ 17,452,576	$ 17,583,537
Liabilities:		
Deposits	$ 13,174,582	$ 11,884,890
Federal Home Loan Bank advances	663,123	1,335,996
Securities sold under agreements to repurchase and other short-term debt	1,015,099	1,570,971
Long-term debt	590,520	687,797
Accrued expenses and other liabilities	158,102	220,145
Total liabilities	15,601,426	15,699,799
Equity:		
Shareholders equity:		
Preferred stock, $0.01 par value; Authorized - 3,000,000 shares;		
Series A issued and outstanding - 56,400 and 224,900 shares	56,400	224,900
Series B issued and outstanding - 400,000 shares (net of discount; $7,702 and $8,574)	392,298	391,426
Common stock, $0.01 par value; authorized - 200,000,000 shares;		
Issued - 67,899,440 and 56,607,177 shares	679	566
Paid in capital:		
Warrant for common stock	8,719	8,719
Additional paid in capital	815,893	722,962
Retained earnings	786,949	781,106
Accumulated other comprehensive loss, net of taxes	(66,872)	(105,910)

Less: Treasury stock, at cost; 3,801,628 and 3,723,527 shares	(152,548)	(149,650)
Total Webster Financial Corporation shareholders equity	1,841,518	1,874,119
Noncontrolling interests	9,632	9,619
Total equity	1,851,150	1,883,738
Total liabilities and equity	$ 17,452,576	$ 17,583,537

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)	Three months ended June 30, 2009	2008	Six months ended June 30, 2009	2008
Interest Income:				
Loans including fees	$ 137,533	$ 175,786	$ 278,300	$ 367,058
Investments securities	48,799	38,115	99,626	77,447
Loans held for sale	833	92	997	1,492
Total interest income	187,165	213,993	378,923	445,997
Interest Expense:				
Deposits	49,982	60,055	102,890	135,297
Borrowings	17,895	28,252	38,548	60,158
Total interest expense	67,877	88,307	141,438	195,455
Net interest income	119,288	125,686	237,485	250,542
Provision for credit losses	85,000	25,000	151,000	40,800
Net interest income after provision for credit losses	34,288	100,686	86,485	209,742
Non-interest Income:				
Deposit service fees	29,984	29,943	57,943	58,376
Loan related fees	6,350	7,891	12,832	14,749
Wealth and investment services	6,081	7,634	11,831	14,590
Mortgage banking activities	3,433	104	4,039	844
Increase in cash surrender value of life insurance	2,665	2,623	5,257	5,204
Impairment losses on investment securities	(27,110)	(54,924)	(27,110)	(56,177)
Net (loss) gain on the sale of investment securities	(13,593)	126	(9,135)	249
Gain on the exchange of trust preferred securities for common stock	24,336		24,336	
Gain on early extinguishment of subordinated notes			5,993	
Gain on Visa share redemption	1,907		1,907	1,625
Other income	1,325	854	1,600	2,638
Total non-interest income	35,378	(5,749)	89,493	42,098
Non-interest Expenses:				
Compensation and benefits	59,189	62,866	115,658	126,309
Occupancy	13,594	13,128	27,889	26,810
Furniture and equipment	15,288	15,634	30,428	30,794
Intangible assets amortization	1,450	1,464	2,913	3,012
Marketing	3,196	4,940	6,302	8,583
Outside services	3,394	3,706	7,178	7,859
FDIC deposit insurance assessment	5,959	344	10,549	698
FDIC special deposit insurance assessment	8,000		8,000	
Goodwill impairment		8,500		8,500
Severance and other costs	1,313	9,368	1,553	8,718
Foreclosed and repossessed asset write-downs	2,829	484	6,279	717
Foreclosed and repossessed asset expenses	1,799	1,068	2,978	1,348
Other expenses	14,066	16,005	28,366	30,063

Total non-interest expenses	130,077	137,507	248,093	253,411
Loss from continuing operations before income tax (benefit) expense	(60,411)	(42,570)	(72,115)	(1,571)
Income tax (benefit) expense	(28,536)	(14,285)	(29,129)	18
Loss from continuing operations	(31,875)	(28,285)	(42,986)	(1,589)
Income (loss) from discontinued operations, net of tax	313	(439)	313	(2,563)
Consolidated net loss	(31,562)	(28,724)	(42,673)	(4,152)
Less: Net income (loss) attributable to noncontrolling interests		1	13	(8)
Net loss attributable to Webster Financial Corporation	(31,562)	(28,725)	(42,686)	(4,144)
Preferred stock dividends and accretion of preferred stock discount and gain on extinguishment	48,361	(215)	37,932	(431)
Net income (loss) applicable to common shareholders	$ 16,799	$ (28,940)	$ (4,754)	$ (4,575)

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS, continued

(In thousands, except per share amounts)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Basic:				
Income (loss) from continuing operations, per common share	$ 0.30	$ (0.55)	$ (0.10)	$ (0.04)
Income (loss) from discontinued operations, net of tax per common share	0.01	(0.01)	0.01	(0.05)
Net income (loss) attributable to Webster Financial Corporation, per common share	$ 0.31	$ (0.56)	$ (0.09)	$ (0.09)
Diluted:				
Income (loss) from continuing operations, per common share	$ 0.30	$ (0.55)	$ (0.10)	$ (0.04)
Income (loss) from discontinued operations, net of tax per common share	0.01	(0.01)	0.01	(0.05)
Net income (loss) attributable to Webster Financial Corporation, per common share	$ 0.31	$ (0.56)	$ (0.09)	$ (0.09)
Dividends per common share	$ 0.01	$ 0.30	$ 0.02	$ 0.60

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Six months ended June 30, 2009							
(In thousands, except share and per share data)	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non controlling interests	Total
Balance, December 31, 2008	$ 616,326	$ 566	$ 731,681	$ 781,106	$ (149,650)	$ (105,910)	$ 9,619	$ 1,883,738
Cumulative effect of change in accounting principle				11,431		(11,431)		
Comprehensive income (loss):								
Net loss				(42,686)			13	(42,673)
Other comprehensive loss, net of taxes						50,469		50,469
Comprehensive loss								7,796
Dividends paid on common stock of $.01 per share				(1,055)				(1,055)
Dividends paid on Series A preferred stock $21.25 per share				(9,558)				(9,558)
Dividends incurred on Series B preferred stock $12.50 per share				(10,000)				(10,000)
Subsidiary preferred stock dividends				(431)				(431)
Repurchase of 6,123 common shares					(51)			(51)
Accretion of preferred stock discount	872			(872)				
Stock-based compensation expense			1,246					1,246
Restricted stock grants and expense			5,860	222	(2,847)			3,235
Conversion of Series A preferred stock	(168,500)	60	49,069	58,792				(60,579)
Extinguishment of Trust Preferred Securities		53	36,780					36,833
Additional issuance costs associated with the issuance of the Series B preferred stock and warrant			(24)					(24)
Balance, June 30, 2009	$ 448,698	$ 679	$ 824,612	$ 786,949	$ (152,548)	$ (66,872)	$ 9,632	$ 1,851,150

	Six months ended June 30, 2008							
(In thousands, except share and per share data)	Preferred Stock	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Non controlling interests	Total
Balance, December 31, 2007	$	$ 566	$ 734,604	$ 1,183,621	$ (166,263)	$ (15,896)	$ 9,615	$ 1,746,247
Comprehensive income:								
Net income (loss)				(4,144)			(8)	(4,152)
Other comprehensive loss, net of taxes						(30,244)		(30,244)
Comprehensive income								(34,396)
Dividends paid on common stock of $.60 per share				(31,495)				(31,495)
Dividends paid on consolidated affiliate preferred stock				(431)				(431)
Exercise of stock options, including excess tax benefits			(73)		513			440
Repurchase of 11,447 common shares					(349)			(349)
Stock-based compensation expense			1,327					1,327
Restricted stock grants and expense			532		2,660			3,192
Issuance of Series A preferred stock	225,000		(7,300)					217,700
EITF 06-4 Adoption				(923)				(923)
Balance, June 30, 2008	$ 225,000	$ 566	$ 729,090	$ 1,146,628	$ (163,439)	$ (46,140)	$ 9,607	$ 1,901,312

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six months ended June 30, 2009	2008
Operating Activities:		
Net loss	$ (42,673)	$ (4,152)
Income (loss) from discontinued operations, net of tax	313	(2,563)
Loss from continuing operations	(42,986)	(1,589)
Adjustments to reconcile loss from continuing operations to net cash (used for) provided by operating activities:		
Provision for credit losses	151,000	40,800
Depreciation and amortization	29,742	29,039
Gain on early extinguishment of subordinated notes	(4,504)	
Gain on exchange of trust preferred securities for common stock	(24,336)	
Stock-based compensation	4,481	4,519
Foreclosed and repossessed asset write-downs	6,279	925
Write-down of fixed assets	1,150	
Goodwill impairment		8,500
Impairment losses on investment securities	27,110	56,177
Net loss (gain) on the sale of investment securities	9,135	(316)
Decrease in trading securities	76	60
Increase in cash surrender value of life insurance	(5,257)	(5,204)
Net (increase) decrease in loans held for sale	(89,412)	217,596
Net increase in prepaid expenses and other assets	(45,074)	(9,691)
Net decrease in accrued expenses and other liabilities	(41,434)	(18,500)
Net cash (used for) provided by operating activities	(24,030)	322,316
Investing Activities:		
Net decrease in short-term investments	13,938	2,116
Purchases of securities, available for sale	(688,091)	(339,438)
Proceeds from maturities and principal payments of securities, available for sale	99,085	21,083
Proceeds from sales of securities, available for sale	410,336	6,277
Purchases of held-to-maturity securities	(286,084)	(75,163)
Proceeds from maturities and principal payments of held-to-maturity securities	242,530	116,252
Purchases of FHLB and FRB stock	(3,000)	(21,248)
Net decrease (increase) in loans	264,214	(341,820)
Proceeds from sale of foreclosed properties	11,789	5,855
Net purchases of premises and equipment, net of sales proceeds	(13,283)	(15,730)
Net cash provided by (used for) investing activities	51,434	(641,816)
Financing Activities:		
Net increase (decrease) in deposits	1,289,693	(277,591)
Proceeds from FHLB advances	9,420,286	28,275,925
Repayments of FHLB advances	(10,091,665)	(27,906,974)
Net (decrease) increase in securities sold under agreements to repurchase and other short-term borrowings	(554,912)	37,322
Repayment of long-term debt	(15,928)	
Issuance costs for Series B Preferred Stock	(24)	
Issuance of Series A Preferred Stock, net		217,700

Conversion of Series A Preferred Stock	(58,975)	
Cash dividends to common shareholders	(1,055)	(31,495)
Cash dividends to preferred shareholders of consolidated affiliate	(431)	(431)
Cash dividends paid to preferred shareholders	(19,225)	
Exercise of stock options		440
Common stock repurchased	(51)	(349)
Net cash (used for) provided by financing activities	(32,287)	314,547

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

(In thousands)	Six months ended June 30, 2009	2008
Cash Flows from Discontinued Operations:		
Operating activities	$ 313	$ (2,141)
Proceeds from sale of discontinued operations		23,920
Net cash provided by discontinued operations	313	21,779
Net change in cash and cash equivalents	(4,570)	16,826
Cash and cash equivalents at beginning of period	259,208	306,654
Cash and cash equivalents at end of period	$ 254,638	$ 323,480
Supplemental disclosure of cash flow information:		
Interest paid	$ 147,672	$ 199,203
Income taxes paid	1,847	24,190
Noncash investing and financing activities:		
Mortgage loans securitized and transferred to mortgage-backed securities - GSE held-to-maturity	$ 203,030	$
Transfer of loans and leases, net to foreclosed properties	21,253	15,478
Issuance of loan to finance sale of subsidiary		18,000
Gain on early extinguishment of fair value hedge of subordinated debt	1,489	
Transfer of property from premises and equipment to assets held-for-disposition	1,632	900
Extinguishment of junior subordinated notes through issuance of common stock		
Carrying value of junior subordinated notes extinguished	(63,773)	
Fair value of common stock issued	39,307	
Recognition of deferred gain on cash flow hedge	(674)	
Conversion of Series A Preferred Stock:		
Carrying value of Series A Preferred Stock converted, net of cash paid upon conversion	(103,979)	
Fair value of common stock issued	45,187	
Sale transactions:		
Fair value of noncash assets sold	$	$ 40,833
Fair value of liabilities extinguished		7,117

See accompanying Notes to Condensed Consolidated Financial Statements.

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WEBSTER FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations. Webster Financial Corporation (Webster or the Company) is a financial holding company and a bank holding company headquartered in Waterbury, Connecticut that delivers, through its subsidiaries, financial services to individuals, families and businesses throughout southern New England and into eastern New York State. Webster also offers equipment financing, asset-based lending, health savings accounts and insurance premium financing on a national basis and commercial real estate lending on a regional basis.

Basis of Presentation. The condensed consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of Webster and all other entities in which Webster has a controlling financial interest (collectively referred to as Webster or the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies Webster follows conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry.

The condensed consolidated financial statements in this Quarterly Report on Form 10-Q have not been audited by an independent registered public accounting firm, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the Company s financial position and results of operations. All such adjustments were of a normal and recurring nature. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (SEC). Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with the Company s consolidated financial statements, and notes thereto, for the year ended December 31, 2008, included in Webster s Annual Report on Form 10-K filed with the SEC on March 2, 2009 (the 2008 Form 10-K). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period. Webster has evaluated subsequent events for potential recognition and/or disclosure through August 5, 2009, the date the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were filed with the SEC.

Use of Estimates. The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements. Actual results could differ from those estimates. The allowance for credit losses, the fair values of financial instruments, the deferred tax asset valuation allowance and the status of goodwill evaluation are particularly subject to change.

Comprehensive Income. Comprehensive income includes all changes in equity during a period, except those resulting from transactions with shareholders. Besides net income, other components of Webster s comprehensive income include the after tax effect of changes in the net unrealized gain/loss on securities available for sale, changes in the net actuarial gain/loss on defined benefit post-retirement benefit plans and changes in the accumulated gain/loss on effective cash flow hedging instruments. Comprehensive income for the six months ended June 30, 2009 and 2008 is reported in the accompanying condensed consolidated statements of changes in equity.

Earnings Per Share. Effective January 1, 2009, Webster adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. Emerging Issues Task Force Issued No. (ETIF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Accordingly, effective January 1, 2009, earnings per common share is computed using the two-class method prescribed by the Statement of Financial Accounting Standards (SFAS) No. (128), *Earnings Per Share*. (SFAS No. 128) All previously reported earnings or losses per common share information has been retrospectively adjusted to conform to the new computation method.

Reclassifications. Certain items previously reported have been reclassified to conform to the current period s condensed consolidated financial statement presentation.

NOTE 2: New Accounting Standards

Recently Issued Accounting Standards

SFAS No. 166, Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140 (SFAS 166). SFAS 166 amends SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks

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related to transferred financial assets. SFAS 166 eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. SFAS 166 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. SFAS 166 will be effective January 1, 2010 and is not expected to have a significant impact on the Company s condensed consolidated financial statements.

SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 amends FASB Interpretation (FIN) No. 46 (FIN 46) FIN 46 (Revised December 2003), *Consolidation of Variable Interest Entities,* to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. SFAS 167 requires additional disclosures about the reporting entity s involvement with variable interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity s financial statements. SFAS 167 will be effective January 1, 2010 and is not expected to have a significant impact on the Company s condensed consolidated financial statements.

SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 replaces SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* and establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. SFAS 168 will be effective for the Company s condensed consolidated financial statements for periods ending after September 15, 2009. SFAS 168 is not expected to have a significant impact on the Company s condensed consolidated financial statements.

Recently Adopted Accounting Standards

SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51 (SFAS 160). SFAS 160 amends *Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements,* to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the condensed consolidated financial statements. Among other requirements, SFAS 160 requires condensed consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the condensed consolidated income statement, of the amounts of condensed consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 became effective for the Company on January 1, 2009 and did not have a significant impact on the Company s condensed consolidated financial statements.

SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS 133) to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 became effective for the Company on January 1, 2009 and the required disclosures are reported in Note 17 - Derivative Financial Instruments.

SFAS No. 165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 defines (i) the period after the balance sheet date during which a reporting entity s management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 became effective for the Company for periods ending after June 15, 2009. SFAS 165 did not have a significant impact on the Company s condensed consolidated financial statements.

Financial Accounting Standards Board Staff Positions and Interpretations

FSP SFAS 132R-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP SFAS 132R-1). FSP SFAS 132R-1 provides guidance related to an employer s disclosures about plan assets of defined benefit pension or other post-retirement benefit plans. Under FSP SFAS 132R-1, disclosures should provide users of financial statements with an understanding of how investment allocation decisions are made, the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets. The disclosures required by FSP SFAS 132R-1 will be included in the Company s consolidated financial statements beginning with the financial statements for the year-ended December 31, 2009.

FSP SFAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP SFAS 157-4). FSP SFAS 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. FSP SFAS 157-4 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. FSP SFAS 157-4 also amended *SFAS 157, Fair Value Measurements,* to expand certain disclosure requirements. The Company adopted the provisions of FSP SFAS 157-4 during the second quarter of 2009. Adoption of FSP SFAS 157-4 did not significantly impact the Company s condensed consolidated financial statements.

FSP SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP SFAS 115-2 and SFAS 124-2). FSP SFAS 115-2 and SFAS 124-2 (i) changes existing guidance for determining whether an impairment is other-than-temporary to debt securities and (ii) replaces the existing requirement that the entity s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under FSP SFAS 115-2 and SFAS 124-2, declines in the fair value of held-to-maturity and available for sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Company adopted the provisions of FSP SFAS 115-2 and SFAS 124-2 during the second quarter of 2009. Adoption of FSP SFAS 115-2 and SFAS 124-2 resulted in the reclassification of $17.6 million ($11.4 million, net of tax) of non-credit related OTTI to OCI which had previously been recognized in earnings and is disclosed in Note 4 - Investment Securities.

FSP SFAS 107-1 and Accounting Principles Board Opinion No. (APB 28-1), Interim Disclosures about Fair Value of Financial Instruments. (FSP SFAS 107-1 and APB 28-1) FSP SFAS 107-1 and APB 28-1 amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, (SFAS 107) to require an entity to provide disclosures about the fair value of financial instruments in interim financial information and amends *APB 28*, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. The new interim disclosures required by FSP SFAS 107-1 and APB 28-1 are included in Note 12 - Fair Value Measurements.

FSP SFAS 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. (FSP SFAS 141R-1). FSP SFAS 141R-1 amends the guidance in SFAS 141R to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with *SFAS 5, Accounting for Contingencies,* and FIN No. 14, *Reasonable Estimation of the Amount of a Loss.* FSP SFAS 141R-1 removes subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS 141R and requires entities to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. FSP SFAS 141R-1 eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures required by SFAS 5. FSP SFAS 141R-1 also requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with SFAS 141R. FSP SFAS 141R-1 is effective for assets or liabilities arising from contingencies the Company acquires in business combinations occurring after January 1, 2009.

NOTE 3: Subsequent Events

Capital Transaction

On July 27, 2009, Webster announced that Warburg Pincus (Warburg), the global private equity firm agreed to invest $115 million in Webster through a direct purchase of newly issued shares of common stock, junior non-voting preferred stock, and warrants. Warburg is acquiring 11.5 million shares of common stock from Webster, upon receipt of all necessary approvals. Warburg initially funded approximately $40.2

million of its investment and received approximately 4 million shares of common stock and 3 million warrants. Upon initial funding, Warburg will have a 5.9 percent ownership of Webster s common stock outstanding prior to bank regulatory and shareholder approvals. Warburg will fund the remaining $74.8 million and be issued the remaining common stock, junior non-voting preferred stock, and warrants, following receipt of necessary antitrust and federal bank regulatory approvals.

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Following the funding of the remaining portion, Warburg will have a 15.2 percent ownership of Webster s common stock outstanding. A portion of Warburg s investment that is funded following the receipt of regulatory approvals will initially be held in the form of junior non-voting preferred stock which will automatically convert into Webster common stock upon receiving the requisite approval of Webster s shareholders. The preferred stock initially will have a dividend that mirrors any dividend payable on the common stock. If the requisite shareholder approval is not received, and the preferred shares are therefore still outstanding after February 28, 2010, the preferred stock s annual non-cumulative dividend will increase to 8 percent per annum. The preferred stock is expected to qualify for Tier I capital treatment.

As part of the transaction, Warburg will receive 8.6 million seven-year Class A Warrants. The Class A Warrants will initially have a strike price of $10.00 per share, with the strike price increasing to $11.50 per share twenty four months after this transaction and to $13.00 per share forty eight months after this transaction. Warburg also will receive 5.5 million seven-year Class B Warrants with a strike price of $2.50 per share which will only become exercisable and transferable if, following the receipt of necessary regulatory approvals, shareholder approval is not received by February 28, 2010. The Class B Warrants will expire immediately upon receiving shareholder approval.

The investment held by Warburg including the exercise of the Class A and Class B warrants is subject to Warburg not owning more than 23.9% of Webster s voting securities as calculated under applicable regulations of the Board of Governors of the Federal Reserve System.

Other

Subsequent events have been evaluated through August 5, 2009, the date financial statements are filed with the SEC. Through that date, except for the transaction previously discussed, there were no additional events requiring disclosure.

NOTE 4: Investment Securities

The following table presents a summary of the cost and fair value of Webster s investment securities. For securities classified as available for sale, the following table shows the unrealized gains and losses (pre-tax) in accumulated other comprehensive income, by security type.

	As of June 30, 2009					As of December 31, 2008				
			Unrealized		Estimated			Unrealized		Estimated
(In thousands)	Par Value	Amortized Cost [(a)(b)]	Gains	Losses	Fair Value	Par Value	Amortized Cost [(a)(b)]	Gains	Losses	Fair Value
Trading:										
Municipal bonds and notes					$					$ 77
Available for Sale:										
Government Treasury Bills	$ 500	$ 500	$	$	$ 500	$ 2,000	$ 1,998	$ 2	$	$ 2,000
Corporate bonds and notes [(a)]	256,295	139,417	9,490	(34,154)	114,753	359,996	159,610		(66,092)	93,518
Equity securities [(b)]	N/A	15,373	627	(1,341)	14,659	N/A	30,925	2,024.00	(2,174)	30,775
Mortgage-backed securities - GSE	1,150,334	1,169,901	27,540	(2,093)	1,195,348	970,905	972,323	16,592	(152)	988,763
Mortgage-backed securities - other	135,000	133,862		(53,250)	80,612	135,000	133,814		(60,165)	73,649
Total available for sale	$ 1,542,129	$ 1,459,053	$ 37,657	$ (90,838)	$ 1,405,872	$ 1,467,901	$ 1,298,670	$ 18,618	$ (128,583)	$ 1,188,705
Held-to-maturity:										
Municipal bonds and notes	$ 694,984	$ 691,240	$ 8,576	$ (17,000)	$ 682,816	$ 703,944	$ 700,365	$ 9,627	$ (14,481)	$ 695,511
Mortgage-backed securities - GSE	2,003,026	2,015,508	47,904	(5,632)	2,057,780	1,749,399	1,751,679	43,912		1,795,591
Mortgage-backed securities - other	61,217	61,217		(1,108)	60,109	70,493	70,467		(1,824)	68,643
Total held-to-maturity	$ 2,759,227	$ 2,767,965	$ 56,480	$ (23,740)	$ 2,800,705	$				