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04/17/2002 06:30 pm NETZ Netzee Inc (NETZ) − NETZ Q1 2002 Earnings Conference Call

THE OPERATOR:
Good morning ladies and gentlemen, and welcome to the Netzee first quarter conference call. At this time all participants are in a listen only mode (CALLER INSTRUCTIONS) As a reminder this conference is being recorded. I would now like to introduce your moderator for today's conference, Mr. Donny Jackson, Netzee Chief Executive Officer. Please go ahead, sir.

MR. DONNY JACKSON:
Thank you for joining us for our quarterly conference call where we will be reviewing our first quarter 2002 operating results, reviewing the progress we have made in recent months and providing some guidance going forward. I'm Donny Jackson, Netzee's Chief Executive Officer, with me today is Rick Aisworth, our CFO, who will begin the call with the following statements.

MR. RICK AISWORTH:
Before we commence our discussion, we want to remind you that certain statements that we will make during the call are forward−looking statements. These statements include all statements that are not statements of historical fact, regarding the intent, belief, or expectations of Netzee and its management. With respect to, among other things, the anticipated impact of certain events and circumstances, trends affecting our operations, financial conditions and business, our growth and operating strategies, our sales prospects, and the continued and future acceptance of, and demand for, our products and services. We have also been asked to remind you that we're relatively young company that faces many risks. We urge you to review the section entitled "Factors that May Affect Our Future Results of Operations or Financial Conditions" in our form 10−K for the fiscal year ended September

31st, 2001 and was filed with the SEC on April 1st 2002. And the last paragraph of our press release issued today, concerning those forward−looking statements and the risks to our business.

MR. DON JACKSON:
Thanks Rick. Before we review the first quarter operating results, I would like to make a few general comments on Netzee's recent progress. Our first quarter results reflect continuing financial improvement, evidenced by our second consecutive quarter of positive EBITDA and continuing improvement in our cash loss position. I will leave it to Rick to review the numbers in more detail. What I want to talk about today are the milestones that proved first that Netzee is financially sound, second that Netzee is focusing more than ever on our customers, and third that Netzee is a viable proprietor in this market. First let me talk about our financial position. It is improving significantly. In the first quarter, we achieved $430,000 in cash earnings, excluding the lawsuit settlement. What this means, is that we have the ability to fund our operations going forward, to focus on customer service, and to evaluate strategies to grow this business. Our strengthened financial position is apparent also in the fact that during the quarter, we reached agreement with our creditors and with the holders of our series B preferred stock. These very much extend the determination date of our credit facility and the required re−purchase date of the preferred into April 2003. The extension was a vote of confidence in Netzee by our major lenders, the Intercept Group and John A. Charles and Company collectively own 44 percent of our stock, and of course by the holders of our preferred stock also. Now let me turn to non−financial milestones that demonstrate our renewed customer focus. First, we recently signed an agreement with Internet security systems, the premier supplier of security management solutions for the Internet. ISS will help us ensure the integrity and security of our critical information databases. So all our customers can be confident that Netzee is doing everything possible to make Internet banking safe and secure. Second, in recent months we have participated in new partnerships with IBM and Cisco Systems, to improve our data center performance and security. Obviously, these are blue−chip names, which means we're using the best partners to build and deliver Internet banking solutions to our customers. Third, we're taking the lead in innovation, working with the U.S. Treasury Department's Bureau of Public Debt, Netzee recently unveiled a marketing tool for community financial institutions to promote U.S. patriot bonds and processed these orders from the website. Fourth, we're keeping our suite of products and services technologically at the head of the pack. For instance we've upgraded and are releasing new versions of Netzee Internet banking our service Bureau offering and premier Internet, our in−house offering and our on−call telephone banking as well. Sales were moving quickly and efficiently. We recently implemented Internet banking for our First National Bank in Colorado Springs Colorado in 30 days after the contact was signed. As many of your know, in this business, implementation commonly takes months. All of these things support comments that I've made in previous press releases and conference calls, that our cost reductions did not impact customer operations or development. I will turn this now over to Rick to review the numbers with you.

COMPANY REPRESENTATIVE:
Thank you Donny. As we reported this afternoon, Netzee's first quarter represented our second consecutive quarter of positive EBITDA, and our cash loss continued to narrow. EBITDA totaled $530,000 for the quarter, more than double adjusted EBITDA of $260,000 for the fourth quarter of 2001. Per share EBITDA was 16 cents compared with 8 cents in the fourth quarter. Cash loss for the quarter with $320,000 or 9 cents per share compared with

$614,000 or 18 cents per share in the fourth quarter of 2001. As we stated in the press release, EBITDA and cash loss numbers for the first quarter of 2002 included the impact of a $750,000 settlement of a previously disclosed lawsuit. Excluding the settlement, Netzee would have reported EBITDA of $1.28 million and cash earnings of $430,000. I would like to point out that this would have been the first quarter of positive cash earnings in Netzee's history if it weren't for that settlement. As Donny said, our financial improvement is tied to the significant restructuring plan implemented in late 2000 and completed in the fourth quarter of 2001. This included job reductions, sales of non−core assets, consolidation of data centers, and other restructuring of cooperation to achieve increased efficiencies. Net loss for the first quarter of 2002 totaled $6.39 million or $1.89 cents per share, compared with $7.5 million or $2.25 cents per share in the fourth quarter of 2001. First quarter revenues totaled 4.75 million, compared with 5.7 million in the fourth quarter. Revenues were slightly above the anticipated range, but the smaller revenue bases continues to reflect the disposition of non−core businesses, including the sale of regulatory reporting business in February 2001 and the sale of the Digital Vision Assets in November 2001. As well as the planned attrition of certain non−core business acquired from John H. Harl in November of 2000. First quarter gross profit and gross margin were 3 million and 63 percent respectively. This compares with 3 million and 53 percent in the fourth quarter. Gross margin continued to benefit from the disposition and attrition of lower margin non−core businesses. Netzee completed the first quarter with 617 financial institution customers contracted for its internet banking products, and 574 of these were installed. There were approximately 920,000 end users of Netzee core Internet banking products of the end of the first quarter, an increase of approximately 5 percent over the previous quarter. As stated in the news release, our business plan for 2002 assumes negligible new business growth, however, we're confident that Netzee is well positioned to earn new customers going forward. As of March 31st 2002, Netzee had $4.3 million available under its line of credit, which we believe is sufficient to fund working capital requirements for the foreseeable future. The decrease from 6.3 million available as of December 31st 2001, is primarily due to the reduced amount of total borrowings available under our line of credit, in connection with the agreement with our lenders to extend the credit facility until April 2003, and additional cash that was retained on hand at the end of the quarter. I will now turn things back over to Donny.

MR. DONNY JACKSON:
Looking forward, we anticipate second quarter EBITDA of approximately $1 million, on revenues of approximately 4.3 to 4.5 million. As Rick stated, smaller revenue base is anticipated and due largely to the plan loss of revenue contributions, resulting from the sale of non−core businesses. Now I would like to share a few final thoughts and then open this up for questions. First, I believe Netzee is positioned today better than we have ever been. We're a stronger company, stronger financially, stronger operationally, and I've said this before we're probably in the best positions the inception of the Company, to serve our customers and prospective customers. Second, I want our customers to know that we're committed to providing them with the best service and the best products available in the marketplace. We plan to continue earning their respect and their business everyday. This is where our attention has been and will remain, while working from a stronger financial foundation. This concludes our prepared remarks and we appreciate your attendance today. We'll now open it up for questions.

THE OPERATOR:
(CALLER INSTRUCTIONS) Jeff John from SunTrust Robinson Humphries.

THE CALLER:
Could you talk a little bit about the churn of the banks? It still seems like there's quite a few, the actual number under contract and live continuing to go down? Are you adding net new banks during the quarter, seeing some go away but still doing contract signings, and how does that break down in the first quarter? And how will that look throughout the year?

COMPANY REPRESENTATIVE:
Jeff there still is some churn. This quarter, we actually lost a large holding company that was about 30 individual banks. We're known for a while that this customer was going away and that has a big effect on the numbers. We knew this in the fourth quarter, actually and it was a holding company we had signed early on in Netzee's life and given them a discount really on the pricing because they were so big, so they won't hurt us as bad as it might sound. We still anticipate losing a few just in normal attrition, the de−listing obviously has gotten some customers concerned as you might expect, we're still adding a few primarily through the intercept arrangement, as well as selling a couple, but that has been slow. I think as you know, we reduced our sales staff significantly, although we feel like were getting financially in a position to address that issue going forward, so hopefully the remainder of the year will have some different plans.

THE CALLER:
The bank holding company that you guys lost, are the customers associated with that off your platform now?

COMPANY REPRESENTATIVE:
Yes, they are Jeff, they went off it at the end of February.

THE CALLER:
Do you know how many were on there ballpark?

COMPANY REPRESENTATIVE:
There were approximately 30 institutions within that holding, company, and I do not have an end−user for that holding company.

THE CALLER:
Okay. I guess I'm pretty impressed with the face that even with the big drop in the number of banks that you're still getting a big increase in the number of the end users on the platform. Is that just the inherent growth of the Internet? Do you have a couple of customers out there who are just really killing it?

COMPANY REPRESENTATIVE:
It's pretty much across the board, it is the inherent growth obviously, last year, but I think everybody in this (indiscernible) experience some of that to some degree and this quarter was a good quarter for us in terms of the banks promoting it and adding new customers.

THE CALLER:
Switching gear is there any big customer concentration that you have out there right now, another big bank holding company that could be on the fence? That would make a material difference if they went away? Any more 10 percent customers in the mix?

COMPANY REPRESENTATIVE:
I don't know if it's 10 percent or not, we do have a couple big ones. I guess I'd answer it both ways that the first answer's probably yes, we do have a material effect. Everybody that we have, especially some of the ones we obtained in the concentrics acquisition, are not necessarily paying by the customer, so frankly I sometimes believe that number can be misleading from a financial standpoint, in terms of whether you're charging per customer or just charging a license fee or whatever.

THE CALLER:
Were there any big one time benefits that you guys got during the quarter that bumped up that EBITDA number that won't be ongoing in the future quarters?

COMPANY REPRESENTATIVE:
There is no one time fees necessarily, but we do we still have some business that we obtained from the concentrics that will roll off next quarter.

THE CALLER:
Okay.

COMPANY REPRESENTATIVE:
And we'll get most of it next quarter, but third and fourth quarter it won't be there. The nonrecurring stuff of the stuff that would roll off at the end of April and be nonexistent in future quarters has been factored into the projections we gave, the other 4.3 and 4.5 as compared to 4.7 million revenue for this quarter.

THE CALLER:
If part of that is included in the −− if they get at least two months of that in that second quarter, what does that look like then in the third quarter?

COMPANY REPRESENTATIVE:
We'll probably be running right at or slightly below 4 million dollars a quarter in revenue.

THE OPERATOR:
Nick Fiskin with Stevens.

THE CALLER:
A few questions, Rick, if you could address why the non−current asset line was up, and then it sounds like you're going to have some or institutions roll off what Jeff was just focusing on. The installing contract was down a little over 40 versus fourth quarter, I'm wondering where you think that will bottom? And then lastly how many of the 614, 617 financial institutions that are contracted are also intercept customers? Thank you.

COMPANY REPRESENTATIVE:
I'm going to answer that backwards a little bit but the intercept is around 110 to 120. I don't think we can say where things are going to bottom out, we feel like everyday that it's getting better and better in terms of any attrition so it's hard to predict the future, and we're looking forward to adding new customers over the rest of the year as we reevaluate our marketing and sales strategy, so it's been hard to answer that. The second question, and your first question on the balance sheet would you might repeating that?

THE CALLER:
The non−current assets?

COMPANY REPRESENTATIVE:
The majority of that, Nick relates to the expenditures we had to make to extend the preferred stock and the debt. It'll be amortized over a period of time.

THE CALLER:
But if you look at the number that concentrics should roll off in April, what's the number of banks there?

COMPANY REPRESENTATIVE:
What we were just talking to Jeff about?

THE CALLER:
Yes.

COMPANY REPRESENTATIVE:
It's not really banks, it's a Bank of America contract that we had on the old "managing your money" product actually where we staff a call center for them, and over the years they've moved off of that dial up system to an internet based system and will be out of the call center business before then. So, that's something that we've known really ever since the acquisition it has been going down every month ever since the acquisition in 2000.

THE CALLER:
Thank you.

THE OPERATOR:
Jeff John, please go ahead with a follow−up question.

THE CALLER:
Yes, now that you guys are generating some positive EBITDA for a couple of quarters, and actually positive cash flow, what are you going to do with the extra money, are you going to start to payback Harland (phonetic) and Intercept or are you planning to invest in more salespeople or infrastructure?

COMPANY REPRESENTATIVE:
Yes, we continually pay down the line and manage that down as low as we can, so we will always take excess cash to pay that back, but as we achieve higher levels of EBITDA and maintain this, we are evaluating whether or not to hire additional salespeople, and try to generate some more sales now that we turned financial situation of the company around we are going through those decisions right now.

THE CALLER:
I'm going to follow up a on the question that Nick had. If you assume that you don't lose another 30 bank holding company this quarter, is pulling that out of the loss for the first quarter, is that kind of a normalized −− what you'd expect to see the degradation of the customer base 10− 15 or something like that in the coming quarters?

COMPANY REPRESENTATIVE:
Again, Jeff it's hard to have that crystal ball. I don't know that I can say yes or no to that, to be honest with you. We would hope it would be less, and as we look at the possibility of adding sales staff etcetera, we hope we can get back in the market and sometime in the future it will be a plus regardless of what the loss is.

THE CALLER:
Can you talk a little bit about the First National Bank of Colorado Springs, what the underpinnings of that deal were, where it was, how did you get it, where did it come from how big is the bank, what's the opportunity there?

COMPANY REPRESENTATIVE:
Jeff, I can't really tell you the size of the bank, I haven't looked at that, but it was an intercept customer that they signed, and with their help, we jumped in and did the conversion smoothly and efficiently. Again most of the new customers lately as you might guess have come through that relationship.

THE CALLER:
Is it a typical, how are you pricing your deals these days when you get new relationships? Can you talk about the business model from that prospective? I'm sure it's changed over time.

COMPANY REPRESENTATIVE:
It is a typical Internet banking deal, similar to what we've always done from the beginning, anywhere from $1000 or $1500 a month, and then per user charges and per transaction charges on top of that.

THE CALLER:
What are you charging per user per month, does it just vary by bank?

COMPANY REPRESENTATIVE:
It varies by bank, and I don't know specifically for that institution. I think the highlight for that is that the average implementation time both for us, and what we see across the industry in other competitor's press releases, is a minimum of 60 days and you know out beyond 90 in some circumstances, and this bank when they signed up with us, they asked us if we could implement them immediately and we did. I think another positive for us in not cutting our customer service despite all the reorganization.

THE CALLER:
Where they another competitor's platform?

COMPANY REPRESENTATIVE:
I don't think so, but I think it speaks well to how well our folks have learned to work with the intercept folks in terms of, it makes it a lot easier when you have that relationship with the core person obviously to go through that process so obviously I think that's a big benefit that we have there, it helped us do that.

THE CALLER:
When that (indiscernible) call center business goes away, what kind of margin are you getting on that revenue right now.

COMPANY REPRESENTATIVE:
It's probably 70−75 percent margin business Jeff, but it has been declining substantially, I mean the impact to the revenue line in the first quarter was probably about three hundred thousand dollars. Okay.

THE CALLER:
That was the contribution during the first quarter?

COMPANY REPRESENTATIVE:
That's correct.

THE CALLER:
One last question, are you guys −− when customers are coming in looking for deals these days are you seeing more in−house or more service bureau demand from the banks that are out there in the market?

COMPANY REPRESENTATIVE:
Jeff, you know our model is primarily built around service bureaus, so that's what we see that's the thing that we do the most of, our in−house product and in−house customers were primarily ones acquired the in the Concentrics deal and our credit unions. And I think credit unions still tend to favor in−house because of the control issue, and historically I think credit unions on a core side are generally in−house more than banks are but I think as you know we, much like the intercept, we like the service bureau business model much better.

THE CALLER:
Thank you.

THE OPERATOR:
Mr. Jackson at this time there are no further questions, please continue with any closing comments.

COMPANY REPRESENTATIVE:
Thank you, we appreciate your attendance today and for listening in, and we obviously are very excited about the quarter, and finally realizing the benefits of all the restructuring efforts that we spent the last 12 or 18 months on, and feel really good about where we are today and how we're able to serve our customers, and we look forward to staying in this market and being a player. So again, thanks very much for joining us and we look forward to talking to you in the future. (CONFERENCE CALL CONCLUDED)

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04/17/2002 11:00 am	NHL	Newhall Land Farming (NHL) − Q1 2002

THE OPERATOR:
(CALLER INSTRUCTIONS) Ms. Ward you may begin your conference.

MS. MARCIA WARD:
Good morning everyone and thank you for joining us. With us today is Gary Cusumano, President and Chief Executive Officer and Rick Mork Senior Vice President and Chief Financial Officer. If you have not yet received a copy of the press release, you may download it from our Web site at www.newhall.com, or you can call my office at 661−255−4445 and we'll fax one out to you right away. In a moment, we will be providing you with a discussion of some of the factors we currently anticipate may influence our results going forward. Before doing so, I want to emphasize that our discussion is based on projections, that any projection involves judgment and that individual judgments may vary. The projections on which our comments today are based and the factors that we currently identify as influencing those projections represent only the views of certain members of management. Moreover, those projections are made on a limited information available to us now, which is subject to change. It should be clearly understood that the internal projections on which we base our guidance today, and our perception of the factors influencing those projections are likely to change prior to the end of the quarter. Although these projections and the factors influencing them will likely change, we will not inform you when they do. Our company policy is to provide public guidance only during our public conference calls. We do not update that guidance until the next scheduled call. Actual results may differ substantially from what we say today. And no one assumes later in the quarter that the comments we provide today are still valid. They speak only as of today, April 17. Further information about risk factors can be found in our most recent filings with the SEC, including the risk factors section on our most recent 10k. I

would also like to add that any redistribution, retransmission or rebroadcast of this call, in any form, without the express written consent of Newhall land is prohibited. With that said, I will turn the meeting over to Gary Cusumano. Gary.

MR. GARY CUSUMANO:
Marcia, thank you and good morning everyone and welcome to our conference call. In today's call, I want to briefly review our first quarter results, update our repurchase program and pending litigation, and discuss the status of Newhall Ranch. I would also like to update our outlook for this year, and then Rick and I will answer any questions you may have. First, let me summarize our financial results. Revenues for the first quarter were $51.8 million compared to $22.5 million in the first quarter of 2001. Net income was $11.1 million or 45 cents per unit compared with net income of $1 million or four cents per unit for the same period last year. Primary contributors were the sale of 312 residential lots in the company's Westridge golf course community, the sale of 39 acres of commercial land, and the company's income−producing portfolio together contributing $46.2 million to revenues and $18.5 million to net income. Now let me update you about our buyback program. During the first quarter of 2002, a total of 287,000 partnership units were repurchased at an average price of $30.10 per unit. From the time the repurchase plan was announced in May of 2001, through March 31st 2002, 1,257,000 units or approximately 50 percent of the 2.5 million units authorized for repurchase were repurchased at an average price of $28.85 per unit. A total of 1,263,000 units remain to be repurchased at the end of the 2002 first quarter. In April, so far, we have purchased an additional 72,000 units. Now let me bring you up to date on the appeal of Valencia Water Company's request to expand its surface area, together with the water company's management plan with the California Public Utilities Commission. The CUC's recent denial of our opponent's request for a rehearing regarding the approval permits Valencia water company to expand its service area to the Hidden Creek, Creekside, AltaVista and West Creek communities. These communities will include approximately 4000 residential lots and apartments. Opponents have appealed the decision to the California Supreme Court. Acceptance of such an appeal is discretionary with the Supreme Court, and we believe that it is not likely that the court will accept the case for review. On Newhall Ranch, the Los Angeles County Board of Supervisors have decided to delay public hearings until the 2002 third quarter. The hearings would address the six issues in the Newhall Ranch environmental impact report that a Current County Superior Court reported identified as needing additional review. The delay is a result of the decertification of an environmental impact report regarding the acquisition and importing of 41,000 acre feet of state water by Cascade (phonetic) lake water agency, the water wholesaler serving the Santa Clarita Valley. The COWA has appealed the decertification decision to this California Supreme Court. Newhall Land believes this issue can be resolved for Newhall Ranch and is working on several alternatives. However, based on the current schedule, the company does not expect the Board of Supervisors to approve the Newhall Ranch environmental impact report until late in 2002. As a result, the Company anticipates the Current County Superior Court will review the issues early next year and that initial development of Newhall Ranch will not begin until 2005. As I have said many times before, the length of time the public hearings and judicial process will take is difficult to predict, as circumstances beyond the company's control could further delay development. My final comments relate to our outlook for this year. Based on the current strength of (indiscernible) residential market, we have increased our target of selling 1100 residential lots this year to approximately 1400. If the company succeeds in selling the targeted 1400 residential lots, the sales would set a new annual record. We currently are on track to sell approximately 60 acres of commercial land this year, but

have decreased our estimate of the number of acres of industrial land we anticipate selling, from the 20 acres we previously reported to 14 acres. Also, our portfolio of income−producing properties is expected to generate net−operating income of approximately $21 million. As a result of the increased number of residential lots the company plans to sell, projected net income for 2002 is expected to range from about $1.10 to $1.15 per unit, an increase from $1.00 per unit as previously reported. Per unit net income in 2001 was $3.56, and net income, before income producing asset sales, was 52 cents per unit. Having said that, now Rick and I will respond to any questions you may have.

THE OPERATOR:
(CALLER INSTRUCTIONS) Gerald Levin, G. B. L. Asset Management.

THE CALLER:
I would just like to ask a few questions, please. The first is, on page four of your news release, under first quarter new home sales set record, the second sentence in that paragraph says the company does not expect Valencia new home sales for the entire year to exceed the number of new homes sold by merchant builders in 2001, and here's the part that interests me, because of the comparably lower number of new homes that are anticipated to be available for sale in the second half of 2002. Was was that about please?

COMPANY REPRESENTATIVE:
What happened there is there's going to be a little bit of a gap between our transition from our current projects, which are selling homes, to the startup of the Westridge project. And we're not going to be able to maintain the pace, assuming the market is there, with product to match that current sales rate because of that transition. Westridge won't come online until mid to late summer, and the number of projects that we have online will be dropping from − I think it's around 14 or 15 earlier in the year − and, as we speak today, we have about eight projects online that could go down another one or two before the Westridge product comes online.

THE CALLER:
I see. Okay, my second question please. I just want to get a sense of the political environment you're facing. How many members of the L.A. County Board of Supervisors are Republicans? How many are Democrats? And what has been the trend, say over the last five years, in that?

COMPANY REPRESENTATIVE:
The trend for the last five years has been very stable. We have the same supervisors today that we had five years ago. I think the makeup is two Republicans and three Democrats and, while I'm not sure that the party affiliation is really important, I think we've had a really positive relationship with the Board over the last four or five years and so we're optimistic about our projects as they go through that particular Board.

THE CALLER:
Okay, and one less question please. And that is on page eight of your news release, under the section entitled community development, Newhall Ranch, the second sentence. The hearings would address the six issues in the Newhall Ranch Environmental Impact Report that a Current County Superior Court identified as needing additional review. Could you briefly tell us what those issues are and how you hope they will be resolved?

COMPANY REPRESENTATIVE:
Yes, I hope I can name all six of them. Obviously, one of them is water and that is the one that has currently caused us some delay because of an item outside our control and that has to do with the 41,000 acre feet of water which is controlled by (indiscernible) water agency. The other five relate to − one of them has to do with the floodplain, one of them has to do with the wildlife corridor in Ventura Country, one of them has to do with traffic, the sixth one has to do with the significant ecological area contiguous to the river. At this stage, we think our responses to those five issues have been pretty well established, and we're focused on the water issue. That's really the final issue to try to get resolved.

THE CALLER:
Okay well, thank you. I appreciate your answers.

THE OPERATOR:
Robert Kirkpatrick Cardinal, Capital Management.

THE CALLER:
Good morning Gentlemen. Gary, could you go into a little bit of the timetable as to the opponent's appeal to the California Supreme Court and also into the CLWA's appeal to the California Supreme Court on the decertification of the EIR.

MR. GARY CUSUMANO:
Okay, let's start with the CUC issue. They have filed their appeal to the Supreme Court and they have issued their initial briefs. We have an opportunity to respond, they will have an opportunity to respond. My guess is that we're probably six to nine months away from an actual response determination from the Supreme Court as to whether they will deny the request or accept the request and then, of course, if they accept it, it goes beyond that. The second subject has to do with the CLWA's 41,000 acre feet. Keep in mind this is not the lawsuit that we're directly involved in, so I can only go by what we've been told. We have been told that they're expecting the result from the Supreme Court as to whether it will take the case or not take the case, as early as late this week or possibly within the next 30 days. Now if the Supreme Court takes the case, we could be a year to 18 months working through that process. The more likely scenario is that the Supreme Court will deny accepting the case which would then cause this issue to go back to the Superior Court for disposition and we would expect that to happen, probably within sixty days after the Supreme Court makes its decision.

THE CALLER:
And if it goes back to the Superior Court, you have to come up with an alternative or they have to go through another EIR?

MR. GARY CUSUMANO:
Well, when it goes back to the Superior Court, what the Superior Court will do, it will do two things: it will determine what needs to be done with regard to the EIR and, quite frankly, that is the only thing they the appellate court remanded the case on was the efficiency in the EIR. It did not set aside the project, the project being the 41,000 acre feet. The Superior Court, when it receives the case back, does have the discretion to first, decide what is needed for the EIR and second, to either allow the project to remain in place or partially set it aside or set aside the project itself, and that's where the key is. And with regard to Newhall Ranch coming

back as this relates to Newhall Ranch, obviously what we want is for the project to not be set aside so that we can then move forward. However, and this is really not in response to your question but I'll mention it anyway because somebody else might ask or you might ask, we are working in parallel with that particular situation in trying to develop an alternate source of water for the 1600 acre feet of water that Newhall Ranch uses that relates to the state water project. So we're, as we speak, going down, what I would call, parallel paths to try to resolve this thing so that we can meet our timeline that I just described in our opening remarks.

THE CALLER:
Okay. Yet at the same time, you have also, I believe, purchased some water from other companies. How does that play into things?

MR. GARY CUSUMANO:
Yes, we have the other − unfortunately as it relates to this particular item − our acquisition of additional water is from the state water project which has the same issues as the 41,000 acre feet. So, while we do have an acquisition of water, it unfortunately has the same entanglement and so we are trying to work, as I said, in parallel to find an alternate source which is not connected to the state water project.

THE CALLER:
Okay. And bringing in bottles and trucks is not a feasible issue?

COMPANY REPRESENTATIVE:
Well, I will tell you, Rob, if I thought it would be, we would be doing that as we speak. Maybe it's an iceberg from Alaska, I don't know.

THE CALLER:
You never know. And just so I understand it, if the California Supreme Court decides in the next 30 days not take this case with the CLWA and it is remanded to the Superior Court, how long does the Superior Court then figure out whether they want to allow the project to remain partially satisfied or fully satisfied?

COMPANY REPRESENTATIVE:
I think that process can move relatively quickly assuming the CLWA chooses to move in that direction but, keep in mind, we're not in charge, but that can happen as quickly as sixty days and, you know, it's a 60 to 90 day period probably, realistically.

THE CALLER:
And that would then fit in with the Board of Supervisors not dealing with the public hearing until the third quarter.

COMPANY REPRESENTATIVE:
That's correct.

THE CALLER:
Great thank you so much. I'll let someboday else ask questions. (CALLER INSTRUCTIONS).

THE OPERATOR:
(CALLER INSTRUCTIONS) John Jacobsen.

THE CALLER:
Good morning. Can one assume that as a discount today is as great or greater as it has been in awhile? And since we seem to have an ideal interest rate environment, we have a tremendous demand for our product, our sister stocks are trading three and five times higher than they were trading several years ago, that one could ask the question why haven't we been more aggressive in the buybacks? Because we seem to get only good news, but the buybacks seems to have stopped to a snail's pace here in the last several months.

COMPANY REPRESENTATIVE:
Well John, I'm glad to see you recognize that particualry the residential business guess has been very positive, and we've seen a substantial increase in interest in what we have as product to sell. That bodes very well for our future, particularly when you look at what's happening with supply constraints and (indiscernible) issues that one goes through. I think the flip side of that is, if you look at our industrial side of the business, it's not as optimistic today as it has been and so, I guess the long−winded answer to your question is, we're monitoring all of the different economic issues that we see, we're balancing that with the tremendous need for cash to continue to put our land in a position to market it to the demand that exists, and then we're looking at the value of earning units and making judgments as we go forward. We have been a little slower lately. Part of the reason, not all of the reason, but part of the reason is we've been out of the market quite a bit for various quiet period that we must follow when we have announcements of earnings changes and so forth, but I will tell you there's no change in commitment to the strategy that we have, and that is to capitalize on, what we think to be a disparity between the value of our units and the current market price.

THE CALLER:
Thank you John.

THE OPERATOR:
Follow−up question from the line of Gerald Levin, G.B.L. Asset Management.

THE CALLER:
Hello again. What I'm wondering is, excluding the Newhall Ranch project, how many years from now would you make a rough guess that your land will have been so built−out that the pace of land sales will appreciably decline?

MR. GARY CUSUMANO:
Well we're anticipating Valencia to − particularly on the residential side − to be complete in the 2005, 2006 area, somewhere in that arena. Obviously, market conditions between now and then affect that but, we're expecting it to be in that range. On the industrial side, it would probably last three to four years, maybe five years longer than that and then the same on the commercial side. So, as we see it today, it fits very nicely with the startup of Newhall Ranch. Obviously if we run into more snags on Newhall Ranch that could present us a little challenge, but as we see it today, we feel very comfortable that there will be a nice clean, smooth transition.

THE CALLER:
Okay. And I believe you indicated in the press release that the earliest you would be building in Newhall Ranch, of all the legal procedures are finished at the earliest date you could possibly guess, that would be about 2003? Do I recall that properly?

COMPANY REPRESENTATIVE:
No, it's 2005. 2003, I'm not sure what you might have read there but, in any case, we're scheduled for 2005 actual construction.

THE CALLER:
No, you're right. That is 2005. 2003 was wishful thinking.

COMPANY REPRESENTATIVE:
Well, that would be very nice. I would like that but, realistically, its 2005.

THE CALLER:
Well thank you very much.

COMPANY REPRESENTATIVE:
You're welcome.

THE OPERATOR:
Follow−up question Robert Kirkpatrick Cardinal Capital Management.

THE CALLER:
You mentioned earlier, Gary, that part of the reason that you've been a slower buyback is these quiet periods for your earnings. Is that half of it, would you say? Is that a third of it? Three−quarters?

MR. GARY CUSUMANO:
I Rob, I don't even remember. Less than half, probably a quarter, maybe. Rick, do you (indiscernible) (multiple speakers)

COMPANY REPRESENTATIVE:
49.2 percent

THE CALLER:
I knew Mork would have that answer. If it is 1/4, what's the 3/4 reason?

MR. STUART MORK:
Well we've been looking for units, there haven't been a lot of big sellers out there, quite frankly. We, from time to time, the good news is that we're generally the first people that someone might call if he has a block to sell, so we've been able to pick those up but not always. And our largest handful of unitholders have not been particularly interested in selling at these prices, and so we've just had to pick off some other sources − 50 here, 100 there, what have you. So I would say part of it is just the liquidity in our stock and that's in the age−old issue when you're in a buyback program, is the more you buy back, the less you have to buy.

THE CALLER:
That is true. Secondly, the occupancy rate at the Valencia Town Center Mall is now 82 percent. Could you update us on what you are doing to increase the value of that project, number one, with specific reference to an expansion of the mall and also to filling up the space that is vacant, much of which, I believe, is the Edwards theater space?

MR. STUART MORK:
Most of that − I'll get the exact number, it's like 2/3 or something of the vacancy − is the Edward space. And, as we said in the news release −

COMPANY REPRESENTATIVE:
Twelve percent. MR STUART MORK. − that was the Edwards and, as we said in the news release, we do have an agreement with Edwards on that vacant space to settle all this, which would result in a cash payment to us to compensate us for the lost rent. That has yet to be approved by the bankruptcy judge which should happen before too long.

THE CALLER:
Meaning next quarter?

MR. STUART MORK:
Yes, hopefully this quarter. It shouldn't take that long. The good news, though, it is that that vacancy has given as a pretty good opportunity to make some substantial improvements in the mall. And essentially what we have is the period where the mall is now about 10 years old, we have a lot of the original leases rolling over so were taking advantage of that plus the space over where the Edwards theaters were, around 40,000 feet, and moving the food court over which is going to significantly expand it, leasing on that movement is going very well at substantially higher lease rates than we had in the old food court. In addition, we're going to take that end of the mall where the food court is now and put some higher−end tenants in there and then sort of redo the front end of the mall, and that will upgrade the mall, if you will, in terms of its tenant mix which we think has pretty good long−term value implications. So overall, short−term the Edwards situation was, obviously, a problem, but I think we're going to be able to turn it around and create some good value out there for one of our biggest assets. And the leasing, in general, is going very well. Town Center Drive is getting close to being leased out. We have got a few new restaurants opening up and the lease up of the new space with the the upscale tenants is going pretty well, as well. I don't think they have anything signed yet but the negotiations are going fairly well.

THE CALLER:
What's the magnitude of the payement that's going to come to you? Is is like $1 million, $5 million, $10 million?

MR. STUART MORK:
It's over $1 million. At this point, since the judge has not approved it, it's not a $5 million but it's over $ 1 million so we don't want to be too presumptuous with the court. It's a substantial number.

THE CALLER:
Good. I'm sure it wil purchase a few unit. And what about bringing in another anchor? Many years ago it looked like there was some initial movement towards Nordstrom. They wanted a

very large sum of money. Are there further steps that you're taking there? Is the demand there, from the community, to expand the mall?

MR. GARY CUSUMANO:
We are getting closer. There are discussions going on with some additional anchors for the second phase, but I suspect we're a little ways away yet. Interest has perked up again − there is renewed interest, that is what I'm trying to say, and certainly for the kinds of stores that we're looking for for the second phase.

THE CALLER:
Okay great. Keep going at it guys.

COMPANY REPRESENTATIVE:
Thanks.

THE OPERATOR:
Leon Cooperman, Omega Advisers.

THE CALLER:
Thank you. Good morning. A few questions, one of which is easy and a couple of which you already answered, but first, as an MLP, all the improvements in in development work you're doing in the ranch where there's untimately (indiscernible) allowed to build out, how does that come back to the unit hope? Does it come back as a capital gains or ordinary income? That's question number one. Secondly, and you should be willing to answer this question, which you probably won't, you guys have been meticulous in disclosing to the world, your buyback. I've never seen a company, frankly, disclose on the Web, weekly activity. So you have a desire to be open. I am going to give you an opportunity to be really open. Your expending the bulk of our money in this stock repurchase program. You're not buying new land from new developments. You know the biggest investment you're making over the last three or four years is the investment in your own shares, so I will give you the opportunity to tell us what you think you are buying back in value when you effectuate this repurchase program, which is, I guess, indirectly a way of asking a related question. I assume you're optimistic that the zoning on the ranch will ultimately go our way. When that happens, assuming − I'll give you the following assumption − the economy in California would be no worse and no better than it is now. What is the likely value of the Newhall Ranch which, I guess, currently is appraised at about $190 million? Assuming the litigation is resolved and you have the ability to move ahead on the 21,500 homes that the LA Board of Examiners originally gave you approval to develop? Those two questions.

MR. STUART MORK:
When we, as a partnership as opposed to a corporation which would include (indiscernible), we, as you know our unitholders are eligible for capital gaoms, which, of course, is a substantial improvement over the ordinary income tax rates. And so when we sell a long−term asset, such as a rental property like apartments, or what you have, or raw land, that is eligible for capital gains but once we start making improvements on the land, moving the dirt, installing infrastructure, it becomes ordinary income.

THE CALLER:
So, even if you basically put in roads and do things but you don't recognize that value for a

year, my understanding is if you win the first appeal of the environments, there are certain things you could be doing in the way of improvements before the actual ability to, say, sell lots, because the environmentalists have a second appeal. Does that money that you expend come back as a capital gain as ordinary income? Is it going to be more than a year before you recognize that value, in all likelihood.

COMPANY REPRESENTATIVE:
Its not so much the time period as it is the nature of the expenditures. And the tax law says that once you start spending money, it is no longer a "ivestment property". It becomes part of our inventory which is ordinary income and, whether or not a freeway improvement, for instance, which is a condition of a big project, I'm not sure if that converts it to ordinary income, but certainly once we start actual site work, it converts it to ordinary income. So, from a pure tax standpoint, of course, you're better off selling raw land than improved land but, the over the years, we ,of course, get off much higher value for taking the risk of installing the infrastructure and so forth and so there are a lot of trade−offs.

THE CALLER:
What is the rance worth, in your mind, in an environment like today's should the zoning be upheld, which is a must to your expectation?

MR. GARY CUSUMANO:
Well, you know.

THE CALLER:
I said there would be some questions you wouldn't answer.

MR. GARY CUSUMANO:
Thank you.

THE CALLER:
It's frankly consistent with the kind of disclosure that you're persuing in terms of your buy back activity. You wnat everybody to know you think your stock is cheap. What I am really asking you is to explain to us why. I think your answer is work $375,000 to $400 million so when I divide (indiscernible) by 44 million shares, I understand why you're buying back stock. Is this something out of line with your own thinking or inline with your thinking?

MR. GARY CUSUMANO:
I think the answer to the question is, Leon, you have the right way of looking at it. Whether your numbers are accurate or not I can't comment on. But anybody who chooses to want to look at it, obviously, that's the method in which he would do that. We're continuing to buy back. We have been buying back. Yes, you're right. We disclose it every week. You know exactly what we pay for units. We continue to think that, at today's levels, there is a substantial margin and that it is to the unitholders advantage to take the company's money and continue spending it in that direction rather than end up in some of other alternatives. So, the answer is we're still optimistic. We're optimistic that, while we continue to comment on these different little zigs and zags that we go through, some of which, quite frankly, are a real headache for us because they're outside our control but, you know, we're pretty optimistic Leon. Otherwise we would be using your money accordingly.

THE CALLER:
That's true. I guess when you go into a new development, there is a certain amount of risk. You build the shopping center and you've got to speculate that you can get it leased. (indiscernible) do you think this buyback program is. Do you think you have enought of a margin of safety where, the chance of you being embarassed like so many other companies in their stock repurchase decisions is very remote?

COMPANY REPRESENTATIVE:
Well, that's a hard one to answer because, you know, it's hard to say what would happen with the economy three years from now. I think everything that we look at today, and it doesn't make much difference from what angle we look at what we're doing, it appears as though we are doing the right thing. You look at what's going on in the Middle East, energy, oil, anything could happen but, assuming the economy and you gave us that assumption − assuming the economy stays together, we think we're doing the right thing.

THE CALLER:
Good. Well, good luck.

THE OPERATOR:
Follow−up question from the line of Robert Kirkpatrick, Cardinal Capital Management.

THE CALLER:
Rick, what's the schedule of payments for some of these notes receivable that you have, and how much are the big ones and when do they come due?

MR. STUART MORK:
There are a couple of residential and a couple of commercial. They are all due this year, beginning in May. One in May, one in September, then November, December. They are all due this year, they are all, of course, secured inthe first position and they are all at seven percent. We have one for like , a half million that's at six percent, but they are all seven percent, due this year. They are generally king of spread out, May through December.

MR. GARY CUSUMANO:
I think the positive thing in addition to that, those were notes that, in order to make the sales that we made last year, the market has changed such that all of our current deals are for cash.

THE CALLER:
So you're doing any more of those installment sales which you did right around the time of September 11th.

COMPANY REPRESENTATIVE:
Right.

THE CALLER:
And then again, the amount of debt that you're willing to carry, Rick, is in comparison to the $150 million in income properties. Is that how we should look at it? Or is it on the market value as opposed to the balance sheet value?

MR. STUART MORK:
It's on the market value and by year−end, if you include investments we're making in the golf course and the the improvements in the mall, plus you assume a little bit of appreciation, the portfolio should be worth closer to $300 million. And so we sort of used around 60 percent of that as a safe level of debt for the company. And so we have, right now, a fair amount of debt capacity. We are, as we speak, a little under $100 million. I think at quarter end we were just a hair over $100 million, $104 million. We have debt capacity that we feel comfortable using to buy back stock right now. Of course, we have used part of that capacity throughout the remainder of the year to, just to, as Gary said, to develop inventory. We have well $100 million needed to spend on infrastructure and inventory to generate the sales that we have in the business plan.

THE CALLER:
So you need to spend $100 million in cash in next nine months?

MR. STUART MORK:
Yes, over $100 million, just in inventory and in frastructure and and so forth. But that will generate a lot of land sales, obviously.

THE CALLER:
But the point is that you spend that upfront, then you get that back towards the end of a year.

MR. STUART MORK:
So one of the tennets of our overall strategy for the buy back program is we've never felt comfortable borrowing against future land sales. That could come back to bite you. That enters our thinking as to how aggressive we are in using up our debt capacity.

THE CALLER:
Okay. Do you have a sense as to how many lots the builders are controlling in Valencia?

MR. GARY CUSUMANO:
I think they have around 1100. I think it's 1100 and some odd. I don't remember the exact number.

THE CALLER:
You're right. It is in there, I apologize.

MR. GARY CUSUMANO:
It's up from the year end but keep in mind we sold 300 and some lots during the quarter and they are obviously working on those to get them in position to market.

THE CALLER:
Thanks.

THE OPERATOR:
(CALLER INSTRUCTIONS) At this time there are no further questions.

MR. GARY CUSUMANO:
Great. Thank you so much. I really appreciate your interest. Business looks encouraging and

we'll be in touch.

THE OPERATOR:
This concludes the Newhall Lands conference call. Thank you for participating. You may now disconnect. (CONFERENCE CALL CONCLUDED) \plain \fs24 \ATXts750\sl495 \ATXnt2535

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John Waters *F.N.B. Corporation - Vice President and Chief Financial Officer*

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the F.N.B. quarterly conference call.

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about the benefits of mergers between F.N.B. Corporation and Promistar Financial Corporation, and F.N.B. Corporation and the Bank of Central Florida, including future financial and operating results, cost savings and accretion to reporting earnings per share that may be realized from the merger statements with respects to F.N.B.'s plans, objectives, explanations and intentions, and other statements that are historical facts, and other statements identified by words such as believes, expects, anticipates, estimates, intends, plans, targets, projects, and similar expressions.

These statements are based upon the current beliefs and expectations of F.N.B.'s management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. F.N.B. undertakes no obligation to release revisions to these forward-looking statements or to reflect events or circumstances after the date of this presentation. It is now my pleasure to turn the conference over to your host, Mr. Gary Tice. Sir, please go ahead.

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

Thank you, H o l l y (ph) , and good morning, everyone.

I'd like to again welcome you to our first quarter earnings conference call. With me today are our typical team that we have with us, S t e v e G u r g o v i t s (ph) , Vice President of F.N.B. Corp. Vice Chairman of F.N.B. Corporation, Steve also serves as President and Chief Executive Officer of First National Bank of Pennsylvania; Kevin Hale, Executive Vice President and Chief Operating Officer; and John Waters, Vice President and Chief Financial Officer. As always, we will be available to address any questions you may have once we've finished our formal remarks.

I hope that all of you have had an opportunity to read our press release. If so, you will notice that we had another very successful quarter. We are pleased to report that core operating earnings for the quarter were 51 cents per diluted share, which not only met the Street expectations, but were up over 25 percent, 28 percent compared to last year's 40 cents per diluted share. John will go into more detail about the financial results a little bit later. But before he does, I'd like to touch on a few of our accomplishments.

During the quarter, we completed the mergers of Promistar Bank and the Bank of Central Florida. And now, less than a year after relocating our corporate headquarters to Florida, we are the largest bank holding company based in the state. We are approaching $7 billion in assets, and that's up from $4.1 billion just a year ago. We do expect to reach $10 billion in assets over the next few years.

We've accomplished much of this growth during very trying times. But now the national economy, which, by the way, officially slipped into a recession in March of last year, is showing signs of improvement. We also see indications that economic activity is picking up in each of our respective markets. Confirming that the economy appears to be improving, the Fed has stopped cutting interest rates. We believe the Fed will hold interest rates at current levels for at least the next several months.

There appear to be relatively few signs that inflation is heating up, other than higher energy costs, which may relate to more problems in the Middle East, than to our, to economic factors here at home. Overall we believe that the outlook for the economy is much brighter than it was a year, or even six months ago. And we believe that the steps we have taken over the past year give us much greater earnings potential than before.

Now what is one of our top priorities? It's to establish a single corporate culture and pursue a brand identity. To this end, we have recently unveiled our new corporate logo, which combines a handshake and the American flag. This new symbol reflects our commitment to our shareholders, our customers, our employees, and the individual communities that we serve. It also represents our core values of trust and commitment, as well as the spirit of friendship, service and loyalty.

This logo will be complemented by our new corporate slogans, "Relationships Built On Trust", which projects in a clear and concise voice the company's core values. We believe that we have the very best brand name in the country for a bank franchise - First National Bank. And we have elected to build our branding strategy on this. Already we have converted all former Promistar offices in Pennsylvania to First National Bank, and we will complete this branding in Pennsylvania by the end of third quarter. In Florida, we expect to have that completed by the, by the end of the year.

Now there's another key priority for F.N.B. Corporation. That is to increase investor awareness of the company. With more than $6.7 billion in assets, and a market capitalization that exceeds $1.2 billion, we are now large enough to attract the attention of many more investors than we could have just over a year ago. Last month, F.N.B. hosted its first annual investor and analyst conference.

This event was attended by more than 20 institutional investors and banking industry analysts. We provided these investors with an insight into our company's strategic plan for growth and diversification. But we also exposed them to our deep and talented management team. The meeting was broadcast live over the Internet for those unable to attend in person. Now based on the overwhelming positive feedback received from this first-ever event, we would anticipate hosting another investor conference in the near future.

At this time I'd like to turn the presentation over to John Waters, who will report on the first quarter results.

John Waters - *F.N.B. Corporation - Vice President and Chief Financial Officer*

Thanks a lot, Gary. Core operating earnings for the first quarter of 2002 were $21.8 million, or 51 cents per diluted share. We're very pleased with these results, as they not only match the consensus estimate and our internal expectations, they include the first published results of our merger with Promistar. Please note that all historical amounts have been restated for that pooling transaction.

These results are up 36 percent, compared to the $16 million recorded for the first quarter of last year, and up 28 percent on a diluted earnings per share basis. For the quarter, the return on average equity was 15.3 percent, and the return on average assets was 1.3 percent. In case you haven't noticed, Smith consistently achieved over 15 percent return on equity, looking back at the last four consecutive quarters. Significant revenue increases in the quarter fueled these outstanding results.

As for the details, revenue, on the fully taxed equivalent basis this quarter, was approximately $97 million, up $13 million or 16 percent compared to the same quarter last year. The major contributor to this gross growth was an increase in net interest income on a tax equivalent basis, of $8.6 million, or 14 percent. This net interest income improvement resulted from growth in loans, as well as prudent management of our cost of funds, resulting in a 31 percent decrease in interest expense over the same period last year, and an 11 percent decline on a linked quarter basis. The net interest margin in the first quarter was 4.68 percent, up 36 basis points from a year ago.

Average loan growth in the first quarter showed a remarkable increase from last year, growing six percent on a year over year basis, and five percent on a sequential quarter basis. If you net out our lease portfolio run off, as we discussed in previous calls, average loan balances grew 7.9 percent in the first quarter over last year. The acquisition of Bank of Central Florida contributed about four percent of these increases, leaving organic growth at about three percent.

Interest expense declined $17 million from a year ago, and nearly $5 million on a linked quarter basis. This favorable trend is a continuation of the positive impact of declining market rates of interest experienced during the last year. Our overall average cost of funds for the first quarter was 3.05 percent.

Total deposits grew approximately six percent year over year. Four percent of this increase was due to acquisitions, leaving approximately two percent in organic growth, which occurred mainly in the Florida market. It's worthy to note that non-interest bearing DDA grew 20 percent over last year, and 14 percent since the end of the last quarter.

With renewed rumblings of the Fed increasing rates later this year, let's take a look at our interest rate sensitivity. As of March 31st, the corporation's balance sheet is positioned to benefit slightly from a general increase in market rates, should the Fed decide to take that posture. Our one year gap is a positive one percent, but of course that's only on the static basis. Modeling the effect of a 100 to 300 basis point rate increase indicates that net interest income would increase about one percent for each 100 basis point rise.

Non-interest income growth also increased at a significant pace, up 19 percent over the first quarter of last year. Deposit fees increased 28 percent over the same period, due to deposit volume growth, as well as fee rate increases. Income from insurance, commissions, and fees was up 27 percent, reflecting a continuation of our growth in this product line. And in spite of market value declines from a year ago, income from trust services increased almost five percent year over year.

Non-interest expense, excluding merger related and non-recurring charges, increased nine percent in the first quarter of 2002, compared to the first quarter of 2001. The largest non-interest expense, salaries and benefits, increased 14 percent in the first quarter. It should be noted that there were two acquisitions subsequent to the first quarter of last year, First National Bank of H e r m i n i e (ph) , at Promistar in August, and the Bank of Central Florida last January. Because these were purchase accounting transactions, historical salary and benefit dollars were not restated beyond their consummation dates. These transactions would have represented approximately one-half of the 14 percent increase in salaries and benefits year over year.

The remaining portion is principally due to merit increases in January, as well as performance compensation payments related to our fee-based services. Looking forward for the remainder of the year, salaries and benefits should decline further as staff and general expense reductions continue to be realized due to the merger with Promistar, which should be fully implemented by the end of June.

Due to our substantial insurance operations, the traditional efficiency ratio measure is not a good benchmark when comparing us to peers. Focusing solely on our banking and finance company operations, for the first quarter of 2002 the efficiency ratio was 59.5 percent. We expect to improve this measure as the year progresses, to a ratio closer to 58 percent, excluding insurance operations.

Asset quality trends remain stable in the first quarter. Net charge-offs as a percentage of average loans for the first quarter were 36 basis points. Non-performing loans represented .58 percent of total loans, and the allowance to average loans was 1.36 percent. As we have stated in the past, credit quality is extremely important to management, and we monitor it very, very closely.

As previously disclosed, we did incur a pre-tax merger related and non-recurring charge of $42.7 million this quarter. These charges relate to the Promistar and Bank of Central Florida acquisitions. The three major categories of these charges were employment contract and severance, data processing equipment and contract write-offs, and professional services. Including these expenses, the results for the quarter reflect an $8.9 million loss, or 21 cents per diluted share.

Gary, this summarizes our financial results.

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

Thanks, John. At this time I'd like to turn the presentation over to S t e v e G u r g o v i t s (ph) , who will provide some additional information on our Pennsylvania Ohio banking operations, and then after his report, Kevin Hale will discuss our Florida banking operations, as well as the successful growth and integration of our insurance and wealth management businesses -- Steve.

Steve Gurgovits - *F.N.B. Corporation - Vice Chairman*

Thank you, Gary. As Gary mentioned, we closed the merger with Promistar on January 18th, and are now ranked as the eighth largest bank in Pennsylvania, and the largest community bank in the Western half of the state.

The acquisition significantly enlarged our market area, and provided us with great growth opportunities. Promistar's customer base provides us with a terrific opportunity to market our value added fee-based services, and we are already seeing positive results. We now have exposure to more than 2.2 million households throughout Western Pennsylvania, however we have penetration in only about ten percent of them, so there are clearly tremendous opportunities.

When we announced the acquisition of Promistar last summer, we said that we expected to achieve a combination of cost savings and revenue enhancements. We have identified, and are now realizing specific cost savings, through consolidation of back offices, and implementing best practices. But we realize there was some speculation that revenue gains, which are not as easy to identify, might prove more difficult to achieve.

Let's take a look at annuities. The process began last July. We identified those employees, got them licensed, and now they are selling. Last year, for the entire year, Promistar did just $249,000 in gross commission revenues. In the first quarter of this year, the Promistar branches did $677,000 in gross commission revenues. These first quarter results are two and a half times the commission revenue produced for all of last year, and we have barely even started.

Another example of revenue growth would be deposit service charges. For the first quarter, First National Bank of Pennsylvania service charge revenue increased $1.4 million, or 38.7 percent when compared with the first quarter of 2001. Adjusting for the H e r m i n i e (ph) acquisition by Promistar, service charge income still increased nearly $700,000, or 18.5 percent.

These are just two examples where our plans to increase fee income are being successfully executed. In residential mortgages last year, Promistar originated $25 million. We do more than that in a month. Our people are now there training the Promistar managers. After all, this is a number one consumer product to leverage sales. We sell deposit product, as well as title insurance, and that leads to property and casualty insurance sales, and so on.

At First National Bank, small business lending is our real niche. Promistar didn't even have a small business division. We did, and now we have duplicated it for our new customers. We have mentioned in the past that as a company we are not growing simply to become bigger, we are doing so to become better and more importantly, more profitable. The opportunity to increase non-interest income by cross-selling to our customers should provide us with excess growth for the next several years, as we bring non-interest income up to our targeted rate of 35 percent of total revenues.

We already have the experience and the personnel in place to capitalize on this opportunity. It may be useful to consider how this accelerates our growth. With the addition of Promistar, we will be able to grow our highly profitable fee-based services even further, enabling us to realize our projected double-digit fee-based income growth here in the North.

As we have told you, the Promistar acquisition will be accretive to earnings this year, and in 2003, and in 2004. By definition, that means we will have increased our growth rate above what it would otherwise have been. When we can generate strong growth in an area where we have a great deal of knowledge and experience, and that growth is profitable, you know we are building shareholder value in a relatively low-risk situation. We are making significant progress in achieving our cost savings and revenue enhancement, and we will continue those programs, which have proven so successful. -- Kevin.

Kevin Hale - *F.N.B. Corporation - Executive Vice President and Chief Operating Officer*

Thanks, Steve. As you know, we closed on our acquisition of the Bank of Central Florida at the end of January. We now have a total of 43 full service financial centers in six counties in Southwest and Central Florida.

The conversion of the six Bank of Central Florida offices will occur this weekend, when they will be renamed First National Bank of Florida, with signs depicting our new red, white and blue corporate logo. The conversion of our 37 other Florida branches will be completed by the end of the year.

In addition to converting the Bank of Central Florida branches to First National Bank branches, we will increase our insurance presence in Central Florida as we proceed to place licensed agents in many of those new offices. This will allow us to more efficiently provide our new customers with a complete line of insurance products, including life, property and casualty, homeowners and title insurance.

Steve discussed the initiatives that we're taking to cross-sell to our new customers in Pennsylvania. We have a similar opportunity in Florida, by taking aggressive steps to increase non-interest income as we progress to become a diversified financial services provider for our customers.

At the beginning of this month, plans were announced to build a new information technology center in Naples, to provide customer service, operational support, and technical support for our rapidly expanding company. Construction is expected to begin in the third quarter of this year. Operational efficiency is a key component of our strategic plan to provide our customers all the personal service and personal attention of a small community bank, but with the back room operating efficiencies that a large bank infrastructure can provide.

In previous calls we have identified a number of important goals, and I would now like to take a moment to update you on our progress toward those targets. In the first quarter of 2002, revenue from investment services was $1.4 million. This represents nearly a three-fold increase from the $487,000 in investment revenue reported for the same period last year.

While non-interest income as a percentage of total revenue declined to 29 percent, due in part to the Promistar merger, income from fee-based services remains our key focus for revenue improvement, with a goal to achieve 35 percent of total revenue within the next 36 months.

We are continuing to realize synergies between our banking, insurance and wealth management divisions. We have a sales culture in place in our company to reward those individuals who sell, and provide incentives to others who refer business to our licensed sales professionals. We currently serve more than 2,000 institutional and individual clients, with more than $2 billion in assets under management.

And we believe we're particularly well positioned in the fast growing Florida market. In fact, according to the April issue of "Florida Trend" magazine, two of the counties served by F.N.B. rank among the top five in the state in terms of per capita income. In Sarasota county, the per capita income is $42,277, and in our home base of Collier county, it is $42,852. This compares to the national average of $26,503. Collier county also was noted as the third fastest growing county, with a 28 percent population growth rate between 1997 and 2002.

Also in this latest issue, "Florida Trend" named F.N.B. Corporation as a business to watch for 2002. The growth of the Florida market plays well into our plans to further expand trusted investment services. Company-wide in 2002, we expect 1,400 referrals to trusted investment management. Now if you apply a conservative qualification rate, this suggests that we will receive 835 qualified referrals, from which we expect to achieve 300 sales.

The average new account fee is about $6,000, which means we should generate $1.8 million in new recurring fees in 2002 from trust and investment management. We clearly have a tremendous opportunity here, and we plan to take advantage of it.

Gary, I believe you have some closing remarks.

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

Yes I do, Kevin. Thank you.

Kevin and Steve talked about the progress we are making in integrating both the Promistar and Bank of Central Florida acquisitions into one corporate culture under the First National Bank name. Now we believe that we have created a very powerful brand identity that will enable us to operate more efficiently and grow our earnings significantly. We continue to improve our core bank operations, with state-of-the-art technology that allows us to appear to our customers as a locally owned community bank, while we achieve the operating efficiencies of a big bank. We retain the personal touch and personal service of a small bank, but at the same time, we will provide our customers with a broad array of fee-based products and services to meet all of their financial needs.

We will continue to drive earnings growth by cross-selling our insurance and wealth management services to our customers. We will also continue to expand our footprint in Florida through strategic acquisitions that meet our strict criteria, including being accretive to earnings in the first year. We have a very conservative corporate culture, we believe in maintaining very strong and asset quality ratios, we know our customers, and we will not sacrifice credit quality for growth. Having said that, we do expect to grow our loan portfolio by six percent this year, and we will continue to build on our first quarter performance.

I'd like you to note, that we remain comfortable with the earnings guidance that we have provided you in our previous conference calls. Core earnings per share of 51 cents was in line with our guidance of 50 to 52 cents for the first quarter. Now we expect to achieve core operating earnings per share of 54 to 56 cents in the second quarter, in the third quarter 56 to 58 cents and again, 56 to 58 cents in the fourth quarter. For the full year, we anticipate core operating earnings in the range of $2.19 to $2.23 per share. As we progress throughout 2002, we will provide further updates on these expectations.

Once again, I'd like to thank everyone for participating in today's call, and having said that, I'm going to turn the presentation over to H o l l y (ph) and ask if she would poll the audience for any questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen. The floor is now open for questions. If you have any questions or comments, please press the numbers one, then four, on your touch-tone phone at this time. Pressing one four a second time will remove you from the queue, should your question be answered. Lastly, we do ask while posing your question, that you please pick up your handset if listening on speakerphone for optimum sound quality. Please hold while we poll for questions. Our first -- thank you -- our first question comes from G a r y T u r n e r (ph) . Please state your affiliation, then question.

Chris Merinac - *Robinson Humphrey*

Hi, it's C h r i s M e r i n a c (ph) at Robinson Humphrey. Wanted to ask, I guess first of all from Steve regarding Pennsylvania, what is the Citizens transaction from last year doing in your backyard, is that creating some opportunities? And then I have a follow-up for Kevin or Gary in Florida.

Steve Gurgovits - *F.N.B. Corporation - Vice Chairman*

G a r y (ph) , what we think of far ...

Unidentified

It's C h r i s (ph) .

Steve Gurgovits - *F.N.B. Corporation - Vice Chairman*

Oh, I'm sorry. C h r i s (ph) , initially there was a heavy marketing campaign by them prior to the closing of the Mellon branch sales, that they spent a lot of money and had a lot of visibility with that. Actually since the sale's been consummated, we haven't seen too much to our disadvantage, in fact, in certain pockets of different types of services, we've actually had some improvements in some opportunities to obtain some new customers because of changes in service charges, changes in service structure. So, at this point in time, I'm cautiously optimistic that we'll continue to be able to acquire some new business as a result of those branch sales.

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

And Steve, if I can just add to that, what I've heard through the various sources that I have is that it's rather difficult to change the Mellon corporate culture from what it was to the Citizens, which is more of a truly a retail based environment, and I understand that that's one of the challenging things that Citizens is facing, but again, that's only what I hear, but I think they're focusing on changing their culture right now. But we do expect them to be a formidable player in this market.

Chris Merinac - *Robinson Humphrey*

OK, and then Gary or Kevin, from a Florida standpoint, can you address the pervasive issue of loan pricing, and sort of some of the challenges you have there, and how you're working around that?

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

Sure, Kevin?

Kevin Hale - *F.N.B. Corporation - Executive Vice President and Chief Operating Officer*

Sure, C h r i s (ph) , we focus on loan pricing in every loan committee meeting, and we actually encourage, on a weekly basis through discussions with our primarily commercial lenders, the need to point out that the value added, that our structure presents for our borrowing customers, as well as the fact that we sincerely believe that by providing a higher level of service we can, we can be paid a higher price in those loan transactions.

And if you look at the Florida net interest margin, and the Florida yield on earning assets, it's proven that out. We continue to be able to improve that on a month-by-month basis. And loan demand in Florida is strong, and our activity has remained strong. In fact November, December, January and February were four of the best months we've had in the history of the bank in terms of new loan originations.

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

I think the other thing that we have to add, is when Kevin really talks about service level, we can respond quickly to a request, and I think that really, really sets the stage, customers have been used to dealing with us and getting an answer right away, and we're continuing to do that. Even though the bank might be $2.5 billion, the emphasis that we have is that we're still a community bank that can respond rather quickly. And quite frankly, customers are willing to pay a certain amount for that level of service.

Chris Merinac - *Robinson Humphrey*

Gotcha. OK, and then last question quickly, in Florida is there any seasonality to your deposits in the second, third quarter?

Kevin Hale - *F.N.B. Corporation - Executive Vice President and Chief Operating Officer*

We experience some seasonality every year, C h r i s (ph) , and it starts today with IRS checks being posted against accounts. But you know what you have to remember in Florida is that most of our customers, especially higher net worth customers, retain Florida as their domicile. So they don't move their funds, they don't close accounts and move them to the North as they head North for the summer months. They keep the account relationship, while they may draw the balance down a little bit. That's where we see the seasonal effect. We don't see a seasonal effect like we used to in years past where people would close their accounts. There's a much more conscious effort to maintain Florida as their domicile, and to continue to pay their living expenses with checks drawn on their Florida account.

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

But you should expect that we will hit a low in September as we have over the last, let's see -- I've been in Florida for 25 years, and every September that's always our low peak, and I will say that the fluctuations are a lot less than when I first started in banking, but we will have a reduction of deposits and then they'll pick back up in October and we'll start to ride again.

Chris Merinac - *Robinson Humphrey*

Very well. Great, guys. Thanks a lot.

Operator

Our next question comes from J e f f e r s o n H a r r i s o n (ph) . Please state your affiliation, then question.

Jefferson Harrison - *K.B.W.*

K.B.W. My question is on this $33 million in first quarter salary and benefit expense, how much potential synergy comes out of that $33 million number?

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

I've got the finance guy, he's -- John's looking up in the air right now, and I know he's calculating that, so I'm giving him a few minutes to work on that.

Jefferson Harrison - *K.B.W.*

Let me ask Kevin a question, then. What was the core loan growth in Florida this quarter x - i n g (ph) out the Central Bank of Florida deal? I know you had good originations, but does that translate into strong loan growth?

Kevin Hale - *F.N.B. Corporation - Executive Vice President and Chief Operating Officer*

Yeah, the growth was four, I'm sorry, J e f f e r s o n (ph) , the growth was a little over two percent for the quarter if you take out the Bank of Central Florida.

Jefferson Harrison - *K.B.W.*

All right, and that's versus the last quarter on annualized?

Kevin Hale - *F.N.B. Corporation - Executive Vice President and Chief Operating Officer*

Well, the last quarter on annualized was about three percent.

Jefferson Harrison - *K.B.W.*

OK. In Pennsylvania when you talk about the revenue gains that you're getting, the annuities, the service charges, the mortgages and the small business division, does just annualizing those four things get you to your 18 percent revenue synergy estimate? Or do we need even more than this to hit the 18 percent?

Steve Gurgovits - *F.N.B. Corporation - Vice Chairman*

No, I'm going to speak to that, J e f f e r s o n (ph) . Those numbers are ahead of our projections for the first quarter. So we're very, very comfortable that we'll meet the expectations, and probably exceed them. We have yet to even get into the mortgage originations and that number wasn't very large in our first forecast. But quite frankly where we've been very successful is on the investment side, and on the trust side. It's ahead of projection, significantly ahead of projection, so we believe that we will exceed those numbers.

Jefferson Harrison - *K.B.W.*

All right. What does the new technology center add in expenses in '03?

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

I will tell you that we are not finished with the budgeting of that. We, all we've done is, at this particular point is buy the land, and we're probably going to phase that building in. It's going to replace an existing building that we have, that we expect that we will sell and so we're probably going to expand the center by about 18,000 square feet. And if you take that depreciation over a five, excuse me, a four-year period, that's basically all that we're talking about. We've got people in different locations where we're paying rent, et cetera, et cetera. So we're not going to see that significant of an increase, but we do have the land available to expand that center into about 120,000 square feet for the future.

Jefferson Harrison - *K.B.W.*

OK. And I guess that salary and benefit question is my last, is my last one.

John Waters - *F.N.B. Corporation - Vice President and Chief Financial Officer*

J e f f e r s o n (ph) , this is John. You know, there are some benefits that are in that $33 million, benefits from the standpoint that it is lower on a linked quarter basis. So we have received some of the benefits that are in there. What I would expect as we go forward, it's going to be about a million two to a million and a half ...

Unidentified

Each quarter.

John Waters - *F.N.B. Corporation - Vice President and Chief Financial Officer*

... on a quarterly basis. Thank you.

Jefferson Harrison - *K.B.W.*

OK, thanks guys.

Operator

Once again, if there are any questions, please press one, then four on your touch-tone phone at this time. Our next question comes from P e y t o n G r e e n (ph) . Please state your affiliation, then question.

Peyton Green - *Midwest Research*

Good morning. P e y t o n G r e e n (ph) with Midwest Research. How do you all see the M&A environment shaping up going forward?

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

P e y t o n (ph) , that's probably going to be my question. We're going to continue to stress Florida as our M&A target area. We are looking for the right acquisition. As you know we went to Orlando, we'd like to fill in between Orlando and over on the East Coast, Martin county, as well as Palm Beach, maybe a little bit into, into the Boca Raton area. We're going to continue to look, and I still have a good relationship in the Florida Bankers Association. We're not going to do a deal just to do a deal. It has to be accretive in the first year of earnings and it has to be a one or a highly rated two bank. And that's where we're going to turn our efforts, there have been some transactions that have occurred, that quite frankly we weren't satisfied that we wanted to carry it any further than we did. So, we'd looked at some transactions, and we'll continue to look at transactions. And we do expect that the merger activity will be in the state of Florida.

Peyton Green - *Midwest Research*

OK, so even though pricing might be moving up a little bit, ya'll are still going to stick pretty firm with the accretive ...

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

Absolutely.

Peyton Green - *Midwest Research*

... accretion goal?

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

There's no question about that.

Peyton Green - *Midwest Research*

OK, and then what about non-bank acquisitions?

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

Oh, we're definitely going to continue on the insurance side, as well as on the trust side, and the other opportunities that may be afforded us. But insurance and the trust side will be one area that we'll definitely concentrate on. We are concentrating right now.

Peyton Green - *Midwest Research*

And should we look for a deal, or two deals on the trust or insurance side this year?

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

I would tell you that when one, when one appears for us to look at, we'll make that decision at that time, but I can tell you that I have goals that we would be able to at least have one or two transactions by the end of the year, but that doesn't mean we're going to close it, but we are looking forward to that opportunity.

Peyton Green - *Midwest Research*

OK, great. Thank you.

Operator

Sir, there appear to be no further questions in queue. Do you have any closing comments you'd like to finish with?

Gary Tice - *F.N.B. Corporation - President and Chief Executive Officer*

Yes, I do, H o l l y (ph) . Thank you very much, and I'd just like to thank everyone for participating today with our call. John, Kevin, Steve and I are available, you can feel free to call us any time and we'll share basically this same information that we shared on this call, and we'll get into more details assuming that it's already been disclosed. So with that, again thank you very much. Kevin, John or Steve do you have any other closing remarks?

Unidentified

No, thank you for your attendance on the call.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

END

THOMSON REUTERS STREETEVENTS

EDITED BRIEF

1ESP_WAMUQ_* - Q1 2002 Washington Mutual Earnings Conference Call

EVENT DATE/TIME: APRIL 17, 2002 / 2:30PM GMT

OVERVIEW:

The company has done well in the present quarter. The earnings for 1Q02 are $0.98 per diluted share. The expected earnings per diluted share for FY02 would be in the range of $3.9-4.1.

CORPORATE PARTICIPANTS

Kerry Killinger *Washington Mutual - Chairman, President and CEO*

William Longbrake, *Washington Mutual - Vice Chairman and CFO*

Bill Ehrlich *Washington Mutual - EVP of Corporate Relation*

CONFERENCE CALL PARTICIPANTS

Operator

Howard Shapiro *Goldman Sachs*

Bruce W. Harting *Lehman Brothers*

Jonathan E. Gray *Sanford C. Bernstein*

Vivek Taneja (ph) *JP Morgan*

Richard A. Ekcert *Wedbush Morgan Securities*

Gary Gordon *UBS Warburg*

Paul J. Miller *Friedman, Billings, Ramsey*

Bill Bezolone (ph) *Davidson Investment Advisors*

James Almen (ph) *Merrill Lynch*

Robert Wagner (ph) *Private Investor*

Jay Tejera (ph) *Wells Fargo Van Kasper*

Greg Alexander *Roney Conexant Company*

OVERVIEW

The company has done well in the present quarter. The earnings for 1Q02 are $0.98 per diluted share. The expected earnings per diluted share for FY02 would be in the range of $3.9-4.1.

FINANCIAL DATA

A. **The 1Q02 earnings were $950m or $0.98 per diluted share as compared to $641m or $0.76 per diluted share for 1Q01.**

B. **The EPS for FY02 is expected to be $3.9 - 4.1.**

PRESENTATION SUMMARY

I. FINANCIAL OVERVIEW

A. **Charge-offs net of recovery were $99m as compared to $97m in 4Q01.**

B. Provisions for loan and lease losses were reduced from $200m in 4Q01 to $175m for 1Q02.

C. NPA increased in 1Q02, but at a decreasing rate, excluding $108m of NPA from the former Dime Bancorp.

D. Excluding Dime Bancorp. the increase in NPA was $291m in 1Q02, compared with an increase of $349m in 4Q01.

E. As a percentage of total loans held in portfolio, the allowance of loan and lease losses increased to 111 basis points in 1Q02 compared to 87 basis points in 1Q01.

F. Approximately 70% of $21.8b increase in deposits during 1Q02 came from Dime Bancorp.

G. Transaction deposits continue to grow as a percentage of total deposits from 62% in 1Q01 to 68% in 1Q02.

H. Net Interest Margin declined from 3.8% in 4Q01 to 3.74 % in 1Q02.

I. The net interest margin peaked in Jan. to 3.91% and declined to 3.69% in March.

J. By the end of the year the margin is expected to be in the range of 3 -3.2%.

K. Normalized margin in a steady rate environment is projected to be in a range of 2.9- 3.1%, depending on the mix of assets.

L. Loans serviced for others on which fees was earned and have a mortgage-servicing asset, rose $81b during the 1Q02 to $459b.About $57b of the $81b came from the former Dime Bancorp.

M. The mortgage-servicing asset increased $1.7b to $8b, $926m of that increase came from the former Dime Bancorp.

N. A small increase of mortgage rates and pre-payment rates resulted in small $45m impairment recovery.

O. The mortgage servicing rights impairment reserve was slightly less than $1.7b.

P. The remaining $743m increases in mortgage servicing rights were additions net of amortization from the single-family residential mortgage banking operations.

Q. The value of mortgage servicing rights as a percentage of loans service for others increased from 165 basis points at the end of 4Q01 to 173 basis points in 1Q02.

R. This resulted in a 3.7 multiple of the weighted average servicing fee of 47 basis points in 1Q02 as compared with a 3.5 multiple of the average servicing fee of 47 basis points in the 4Q01.

S. Pre-payment rates on loans serviced for others with capitalized mortgage servicing rights, declined from 33% in the 4Q01 to 28% in the 1Q02.

T. Single-family residential mortgage banking income was $393m in 1Q02.

U. Loans held for sale declined only slightly during the 1Q02 from $23.8b to $23.3b

V. Pre-tax income from mortgage banking operations from the 1Q02, adjusted for financial hedging transactions was approximately $169m.

W. Tangible equity ratio at the end of the 1Q02 was slightly lower than the target of 5%.

II. FINANCIAL OUTLOOK

A. The capital would be deployed for balance sheet growth and opportunistic share re-purchase for the year ahead.

B. The company has predicted an earning range of $3.90- 4.10 for FY02.

C. Net Interest Margin is likely to trend down to a normalized range in the year.

D. Assuming long-term interest rate to be steady or slightly higher it is expected that adjustable rate mortgages would be a greater percentage of mortgage origination value.

E. This would reduce mortgage banking income but it is expected that this would be would be offset by additional net interest income.

F. In case of lower interest rates the company would expect higher gains from mortgage loans.

G. Deposits are expected to grow.

H. Non-interest expenses are expected to decline from 1Q02 levels.

I. The trend in credit quality is expected to continue.

III. OPERATIONAL OUTLOOK

A. The company has completed five acquisitions in the last year including the former Dime Bancorp. Bancorp, Inc. and the mortgage operations of HomeSide Lending, Inc. All the management integrations for the above have been completed and the systems integrations are anticipated to be completed soon.

B. The company plans to focus on five major areas

1. Expansion of market shares in major urban centers nationally in key businesses.
2. Continuing to build on plastic sales and servicing platform in mortgage businesses
3. Successfully converting Dime Bancorp. and establishing major retail banking presence in New York.
4. It plans to open several Occasio financial stores.
5. Progressing on a national brand centered on middle market consumers.

QUESTIONS AND ANSWERS

Howard Shapiro - *Goldman Sachs*

Hai good morning, question for Bill on your perception (ph) on the losses on the available sale portfolio, Bill can you just give us a little bit more detail on how this is co-related with gains or losses to the valuation of Mortgage servicing rights? It was a large loss and the corresponding revaluation of the Mortgage servicing rights was only about 45 million during the quarter. And then finally should we view this on an ongoing basis as part of you Mortgage banking business--it was not included in the schedule?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Ok thank you Howard for that question. First of all again we are hoping that by the end of the year FASB will rescind FAS-4 (ph) for which requires us to state gains on the extraordinary basis below the line. So the embedded floors (ph), if those have been included in the sales available for sales securities it would not have been 298 negative, it would have been more like 224. So don't focus totally on the 298, focus on the 224. In addition, as we have been saying now for several quarters as we managed the Mortgage servicing asset, what we focus on is providing offsets to the variation in the Mortgage servicing from both natural and finances hedges. And, in this particular case, we had benefit also from higher net interest income on the warehouse line against that particular position.

Howard Shapiro - *Goldman Sachs*

So we have to include that as well as an offsets?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Yes, you would have to because in a quarter like this where you have rates rising slightly. What I said in my comments was that we also had still higher pre-payments, which was partial Offsets. So it turned back the recovery on the Mortgage servicing rate asset and then we used the extra net interest income from the natural business hedge to manage the total situation and Offset some of the losses on the securities.

Howard Shapiro - *Goldman Sachs*

Ok thanks.

Operator

Thank you. Our next question comes from Bruce W. Harting with Lehman Brothers.

Bruce W. Harting - *Lehman Brothers*

Hai just a clarification, you said the G&A line would be down. Is that in absolute dollar or a percentage of growth to the balance of the year? And then on the, you know assuming I am just curious what kind of payment levels are you seeing in recent weeks and hopefully for the balance of this year and the foreseeable future of this whole MSR issues and hedging of servicing portfolio is going to yesterday's concern? And having said that, on the balance sheet, I am just wondering the increase in investment securities from 30 billion to 42.9 was that just from the acquisition of Dime or where you intentionally building that upward and can we see that go down--that you don't need to use hopefully, prospectively those securities position we are hedging?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Ok Bruce you managed to ask three questions under one here, I will answer them quickly. On the G&A growth, the statement was reduction in absolute dollars from the first quarter level, in other words decline in absolute dollars as the year progresses. In terms of the pre-payment levels, I did mention for the Portfolio loans that we have serviced for others, which is the one that is connected with the Mortgage servicing rights, that pre-payments did decline from 33 percent in the fourth quarter to 28 percent in the first quarter. We expect pre-payment levels to decline further in the current quarter based on the fact that the Mortgage rate picked up slightly in the first quarter. We are seeing in terms of applications, the downward trend. So, I would expect that to, and as that occurs as you point our, it will change the dynamics on the servicing fee income part of the Mortgage servicing asset and will result later in the year in higher servicing fees. As for the investment securities that increase was directly in connection with the acquisition over 900 million and servicing rights from the Dime and is part of our overall Hedging strategy. And increasingly as I had pointed out during the prepared remarks we are diversifying that Hedging strategy using a variety of derivative instruments as well as investment securities. And I just noted that we sold 7.3 billion of those securities in the first two weeks of April, so the actual amount now outstanding is closer to 34 billion, 35 billion.

Bruce W. Harting - *Lehman Brothers*

Thanks.

Operator

Thank you very much. Our next question comes from Jonathan E. Gray with Sanford C. Bernstein.

Jonathan E. Gray - *Sanford C. Bernstein*

Ah.. yes given the likelihood of a sharp continuing rise in ARM share of US originations and looking at your market share. It looks like if your ARM will produce very rapid loan growth this year, unless you decide to sell in addition to fix rate loans some of your medium terms ARMs. It is reasonable to assume that that's the priority that you would tend to prioritize retention of short-term rate sensitive ARMs over medium term and certainly long term fixed term loans? Could you indicate, what kind of loan growth would you tolerate as a maximum rate of loan growth?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Well Jonathan thank you, I will let Bill grasp for some numbers behind it, but certainly we are optimistic that in that environment we will see an increase in the adjustable rate origination volumes. And as I mentioned in my comments we are anticipating that the primary deployment of capital in our company for the balance for the year will be in supporting asset role. And as Bill mentioned from a capital standpoint we think that, well within the first quarter, we will be back to our tangible capital ratio of at least 5 percent. And with our current capital generation, we can support, I think, a very strong growth in the asset levels. Our first priority would be to retain the short-term adjustable rate of mortgages. As we move down that scale, of course we have a kind of a mixed appetite in the intermediate term ARMs and that could we could easily retain some of those and sell some of them. As you know we predominantly sell all of the fixed rate loans that would be coming in. So, we would very much welcome an environment in which we could see a higher proposition of short-term adjustable rate assets for retention on balance sheet.

Unidentified

Hai, just two additional comments, Jonathan. We did at the end of the first quarter sell slightly over 3 billion in intermediate ARMs to investors. And, we will continue to do sales of that sort. And, we have in the past, not recently, but in the past sold the short terms ARMs, which we could do again if growth was so substantial that it exceeded our kind of natural capital supported growth.

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

I would only add that one of the options we would have with our balance sheet at that point is the potential of some assets substitution. If we could currently have some existing assets, that we would find to be less attractive on a long-term basis than adjustable rate on mortgages. I think we again would look forward to an environment in which adjustable rate mortgage originations were to accelerate.

Jonathan E. Gray - *Sanford C. Bernstein*

Thank you.

Operator

Thank you very much. Our next question comes from R. Jay Tejera from Wells Fargo Van Kasper.

Jay Tejera - *Wells Fargo Van Kasper*

Good morning pertaining to, it looks like an the acceleration of the checking account growth, if I did my math right it was up at about at 22% rate from the December quarter, which is pretty extraordinary, if that is correct but there also seemed to be a slowing in the service charge fee income. Could you tie those two together and maybe give us some kind of outlook for that business?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Thanks Jay, and I will again talk in general and maybe Bill can tell a little bit more on the numbers. We did have a very strong quarter for checking account originations and they really came from two major sources. One is our traditional free checking product, which as you know has a propensity to drive very strong fee income growth. But the second and this a kind of a newer phenomenon for us, it has been the accelerated growth in our platinum checking account, which is more of a higher balanced checking accounts targeting for the customers that have multiple relationships with us, and higher overall balances. And on those particular accounts that drives benefits to us primarily through net interest income because of their deposit balances that are coming into our organization so we earn a spread income whereas the more traditionally free checking product is what primarily drives the growth in the fee income. So, I think the consistency there is that we were very positive with the growth of the fee income. That reflects continued strong growth in this free checking product and then the incremental volume that you saw of checking accounts in the platinum accounts is primarily producing the deposit growth that we are otherwise seeing.

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Just a couple of added comments Jay. The free checking account growth in the quarter was about comparable to previous quarters. So all of the increase that you are seeing in the accounts as Kerry mentioned is from the Platinum accounts. Also as to the fee income, the first part of the year is always the seasonally low quarter of the year, so if you compare it simply with the previous quarter you would expect to see actually very small increase, which is the case. It is up 29 percent over the first quarter of last year, which is a more appropriate comparison. The second comment I would make is that we are seeing some, what we believe to be modest negative effects from the slowing economy and the pullback in retail sales.

Jay Tejera - *Wells Fargo Van Kasper*

Thank you very much.

Operator

Thank you very much. Our next question comes from Vivek T a n e j a (ph) - JP Morgan.

Vivek Taneja - *JP Morgan*

Hai Bill, a question for you on more than you for Kerry, on just the average gain on sale seems to have declined during the quarter. Could you comment a little on that particularly in light of the fact that the rate of capitalization of your MSR is running at a higher rate then the value at which it is being calculated at the end of the year?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

There are two reasons for the apparent decline in there; I will just the explanation with the average gain in sales. Actually on the primary residential loans was unchanged from the fourth quarter to the first quarter, so that gain rate was intact, but we had two things that drove the gain rate down. When you look at it from a total point of view that our l o n g b e a c h (ph) special Mortgage finance loans was put into the securities in sales, that gain rate came down considerably from the fourth quarter. That has to do just as you understand why that occurred. The rates were sticky in that particular sector of the lending market and when rates were falling sharply last year there was a lagging effect in the adjustment of the rates on the loans, and so we were able to put them into securities at above normal gain rate. In the first quarter, the gain rate returned to a more normal level, but that resulted in a substantial difference in the gain rate when compared with the fourth quarter. The other factor has to do with the fact that we are required to recognize gain on loans which have rate locks, but that yet have not been put on our warehouse and not yet have been funded and because of the reduction in applications, what is happening now is that the pipeline is beginning to thin out. And on the locks, we have far fewer of them so there is a reversal in this particular quarter in the amount of gain on a net basis from the previous. So, those two factors, specially the Mortgage finance loans and the reduction in the rate lock accounted for the entire reduction in the dollar amount of the gain and also in the rate.

Vivek Taneja - *JP Morgan*

Thank you.

Operator

Thank you very much. Our next question comes from Richard A. Ekcert - Wedbush Morgan Securities.

Richard A. Ekcert - *Wedbush Morgan Securities*

Hai, this is a question for Bill. I have a question on the capitalization of the MSRs increasing it by looks like eight basis points. Is that due to a lower cupon rates on newly originated loans, increased custodial on warehouse incomes, or are there other factors?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Well it is a little bit more complicated than that, Richard. The MSR capitalization is kind of the mix with the old loans, but also with the new loans, and we go through the revaluation and you saw the 45 million-impairment recoveries, which was a boost to the old loans, but the new loans are also capitalized at current market rates. So you get a kind of the mixing of the two the old and the new and that accounts there for that b l e n d e d (ph) eight basis point increase in the Mortgage servicing rate.

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

I think the other comment of course the Mortgage servicing rights are required to be market-to-market. Two of the most important variables that has factored into the whole portfolio of pre-payment speeds. As Bill mentioned there is a slight improvement in the pre-payment speeds in the quarter from the previous quarter, so that would have the impact.

Richard A. Ekcert - *Wedbush Morgan Securities*

And also what won't rise up at the long end of the both the flat and in the treasury curve, wouldn't that impact there expected pre-payment speeds? Do you expect to see those tail-off significantly?

Unidentified

Oh yes that is the comment I made, they actually were down during the quarter slightly and you would expect them to continue to climb but the Mortgage rate itself was up only a few basis points during the quarter. So it did not have a

dramatic effect.

Richard A. Ekcert - *Wedbush Morgan Securities*

Thank you very much.

Operator

Thank you. Our next question comes from Gary Gordon with UBS Warburg.

Gary Gordon - *UBS Warburg*

Ok thanks, quick one on the MSR, the amortization rate I guess you quoted about in your servicing portfolio was in the high 20's. I came up with those about a 5-6 percent point lower amortization rate in the MSR. So your MSR has slow rates in the prepayment, I know this is a complex issue, but is that, what will you explain ?

Unidentified

The amortization rate is done kind of a more normalized longer-term basis we do increase it, obviously, when prepayment escalate decrease, when prepayment shrink, but it's not done on a day-by-day basis. It's a smooth out more in longer-term expectations, and so you would expect here. And that is why I made the comments during another question that servicing will increase later in the year as the amortization rates come down, provided that prepayment levels do come down on a sustained basis. But for the near term, Gary you should expect still to have a very high amortization rates. You made a good observation that you can watch the amortization rate with prepayment rate to anticipate where servicing fees will be going in the coming quarters.

Gary Gordon - *UBS Warburg*

Ok, thank you.

Operator

Thank you. Our next question comes from Paul J. Miller with Friedman, Billings, Ramsey.

Paul J. Miller - *Friedman, Billings, Ramsey*

Hey thanks, on your account, Bill, we have been hearing that you are paying like a 4 percent yield on those type of accounts. Can you just make a comment if that's true and if it is true, if you are paying 4 percent on some of those accounts; do you plan to keep it at a 4 percent yield or do you plan to lower it?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

The current rate is below 4 percent. Understand if there is a p l a n t (ph) it intended to be 3.25 percent within a week or so. And, if that was done intentionally at this particular point in the cycle where rates were very low. We've done substantial research of all that shows that this type of account is highly likely to have a high stickiness. It is clearly mentioned it's a high balance account; it's aimed at customers with other relationships with us and we do fully expect that the rate will be in line with the kind of normal money markets rates in few months.

Paul J. Miller - *Friedman, Billings, Ramsey*

Thanks.

Operator

Thank you. Our next question comes from Greg Alexander - Roney Conexant Company.

Greg Alexander - *Roney Conexant Company*

I just wanted to ask first of all can you tell us just very roughly, what's your model is, for how deposits and number of accounts would happen in your new Occasio branch, in a general sense if you can? I was just curious on the, if you could distinguish the number of checking account, which would be platinum as compared to free checking and those were added in the quarter?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Well Bill may be looking for some data on the second question. We have provided some data in the past about the progress on the Occasio branches. It's fairly complex about the different kind of account flows and so forth that come off that. I guess I would encourage you to may be come off line and talk to investor relations so you get the material from the presentations that we've given in the past rather than trying to go through that full model online here.

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

And In terms of the total 686,000 increase in checking accounts during the first quarter, 359,000 came from the acquisition of former Dime. The 216,000 of increase was platinum and 111,000 increases were other types of checking accounts.

Greg Alexander - *Roney Conexant Company*

Ok, thanks a lot.

Operator

Thank you. Our next question comes from Bill B e z o l o n e (ph) with Davidson Investment A d v i s o r s (ph) .

Bill Bezolone - *Davidson Investment Advisors*

Thank you. Bill I was hoping that you would give us a general overview of the differences in your hedging structure today versus a year ago?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

I will answer that question. A year ago, we had only about 1 billion in servicing rights, now we have 8 billion, so there are very substantial changes. What we are in the process of doing as I said is diversifying the hedge so that we have a variety of financial instruments and we are doing that. For couple of reasons, one is, we want to conserve capital and the previous strategy that was heavily concentrated investment securities with that achieved that objective. Also for those who are knowledgeable about servicing rights, they have the that the values do not move in a straight line with interest rates and so it is important to have a diversity of different hedging instruments that take into account how the value of the servicing rights would change either in falling rate environments or in rising rate environment. So, that is essentially what we are up to now. It's just a pretty more diverse strategy that uses a variety of instruments and that we expect to be effective in any type of rate environment.

Bill Bezolone - *Davidson Investment Advisors*

Now, what would you say if I paraphrase and said that a year ago you weren't as focused on the convexity of the MSR's and were focused more on lending or hedging, if I may, and today you are far more focused on trying to get the proper shape of that curve matched?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

It was a part of my comment. It wasn't a big deal for us relative to the total size of our business. It just didn't matter the natural business hedge, it could pick up most of it. And a year ago also, we were in the environment where everybody expected rates to fall. And so a linear strategy as you referred to actually was a very appropriate for falling rate environment. But it's not an appropriate strategy for rising rate environment. So again we just feel that we have a strategy here now that's going to be much more responsive to any rate environment whether it be increases or decreases in rates.

Bill Bezolone - *Davidson Investment Advisors*

Thank you.

Operator

Thank you. Our next question comes from James A l m e n (ph) with Merrill Lynch.

James Almen - *Merrill Lynch*

Good morning. Just can you give us an idea as to what sort of efficiencies you might see in your motor servicing business? If its a home side system that you mentioned? What sort of impact will that have and over what time frame?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Yeah, let me address that one. I will just refer back to the general comment I made about absolute declines in expenses as the year progresses. We are right at the peak point here in the first quarter of having absolutely the highest expenses possible in our mortgage banking business, particularly in the servicing side. But we have now with the completion of the Fleet conversion, and actually what we believe to be an improving environment going forward for non-performing assets in the single-family residential area. We expect the cost in the servicing area of our business to come down substantially as the year progresses.

James Almen - *Merrill Lynch*

Thank you.

Operator

Thank you. Our last question comes from Robert Wagner (ph) - Private Investor (ph).

Robert Wagner - *Private Investor*

Gentlemen, thank you. As a more than two year investor in WM, I am thrilled with the success you have had and you know a big question I have is, what are your thoughts, as to why our P/E, which is hovering around 10, closure than 9 of the US projections, and why can't we get there up on 12?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Laughter... That is a great question and we certainly, from the managements point of view we think the price earnings ratio is very low in relation to the consistent earnings growth that we have had over many years; the return characteristics of the company, and the opportunities that we see for developing powerful national franchises in our key business areas. So we would agree that the that the P/E ratio is not what it should be, and our first job will be to focus on producing the financial results that earn the right for a much higher P/E and then doing the best job we can of explaining the strategies and outcome of our results to capital markets. Then we figure that the capital markets will eventually take care of itself on that front. In the mean time, if the markets that have chosen to mis-value our company from our point of view, we always have the option of share repurchase and we haven't been afraid to use that aggressively in the past. And, if we have that opportunity again we will do that. But on long-term basis, we will also try to communicate our success as best we can so that the street has the best opportunity to value our company the way it should be.

Robert Wagner - *Private Investor*

Well thank you. As a platinum account holder also I thank you for your wonderful success for last few years and continue good success.

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Well thank you very much.

Operator

Thank you. Now I would like to turn the call back to Mr. Killinger for any closing remarks.

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Well that is fine. I think we are again... once again thanks to everybody for joining us today. Again, as always if you have follow up questions, be sure you again get in touch with investor relations and I hope we can see as many of as possible on June 25 at our quarterly investors day.

Operator

Thank you all for joining today's call and have a nice day.

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

1ESP_WAMUQ_* - Q1 2002 Washington Mutual Earnings Conference Call

EVENT DATE/TIME: APRIL 17, 2002 / 2:30PM GMT

OVERVIEW:

The company has done well in the present quarter. The earnings for 1Q02 are $0.98 per diluted share. The expected earnings per diluted share for FY02 would be in the range of $3.9-4.1.

CORPORATE PARTICIPANTS

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Bill Ehrlich *Washington Mutual - EVP of Corporate Relation*

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Operator

Howard Shapiro *Goldman Sachs*

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Bill Bezolone (ph) *Davidson Investment Advisors*

James Almen (ph) *Merrill Lynch*

Robert Wagner (ph) *Private Investor*

Jay Tejera (ph) *Wells Fargo Van Kasper*

Greg Alexander *Roney Conexant Company*

PRESENTATION

Operator

Good morning and welcome to Washington Mutual's first quarter 2002 earnings conference call.

All lines will be on a listen only until the question and answer session.

During this on our call today will be Mr. Kerry Killinger, Chairman President and CEO of Washington Mutual, and Mr. William Longbrake, Executive Vice President, Enterprise Risk Management and Chief Financial Officer.

Today's call is being recorded for instant replay purposes. If you have any objections, you may disconnect at this time. The replay will be available one hour after the call has ended. The toll free number is 800-666-82092. The toll number is 402-220-0267. This call is also being web cast and will be archived on the company's website within a few hours following today's call.

Now, I would like to turn the call over to today's host, Mr. Kerry Killinger, Chairman President and CEO of Washington Mutual.

Mr. Killinger you may begin.

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Thank you and good morning everyone and welcome to our call and web cast to watch the Mutual's record performance for the first quarter of 2002.

Let me begin by saying that as a management team, we are not only pleased to begin the year with a strong, surely from a financial perspective, but to have also made further progress in our efforts to build the country's top consumer financial services company.

We are going to begin things this morning with Bill Longbrake who will briefly cover the first quarter highlights and a few of the key trends that we see shaping up for the year. I will then come back afterwards and center my comments on four major areas. First, our key focus for the remainder of 2002, second a status report on recent acquisition integration, third, an update on what we see as the major sources of capital deployment for the rest of the year. And, finally then earnings guidance for the remainder of 2002.

So, this should leave plenty of time for questions and answers.

With that set up, I will turn over to Bill.

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Well thank you Kerry and good morning everyone.

First the customary disclaimer statement.

Statements contained in our commentary today which are not historical facts and words pertained to future operating results of Washington Mutual Inc. and its subsidiaries, constitute forward looking statements within the meaning of the private securities litigation reform act of 1995. The actual results may differ materially from the results discussed and these forward looking statements for the reasons among others, stated in the risk factors section of our annual report on form 10k. In addition to the information in this conference call related to projections or other forward looking statements may be relied upon subject to the previous safe harbor statement as of the date of this call April 17, 2002, and may continue to be used while this call remains in the archived portion of the company's website. This call is the property of Washington Mutual, any redistribution, retransmission, or rebroadcast of this call in any form without the expressed written consent of Washington Mutual is strictly prohibited.

Net income was a record 950 million or 98 cents per diluted share in the first quarter compared with 641 million or 76 cents per diluted share and compared with 667 million or 79 cents per diluted share adjusted for the change in the accounting for goodwill in the first quarter of last year.

Since the beginning of last year, we have completed five acquisitions including completing of the acquisitions of the former Dime Bancorp and the mortgage operations of HomeSide Lending, Inc. in the first quarter of this year. Please keep in mind that because of these acquisitions have been accounted for as purchases, this quarter's financial results are not directly comparable with previous periods.

In the next few minutes, I will elaborate briefly on several topics.

Let us begin with the discussion of credit trends, which are showing signs of improvement.

Charge-offs net of recovery were relatively stable at 99 million compared with 97 million in the previous quarter, and actually declined slightly after taking into account the effect of the former Dime. Reflecting these trends, we reduced the probation and loan and lease losses from 200 million in the fourth quarter to 175 million in the first quarter. Nonperforming assets continued to increase in the first quarter, but at a slowing rate, excluding 108 million in nonperforming assets of the former Dime. Nonperforming assets rose 291 million in the first quarter compared with an increase of 349 million in the previous

quarter.

As on the fourth quarter of 2001, single-family residential and specially mortgaged finance loans accounted for the larger share of increase in nonperforming assets. Give the emerging economic recovery and continued strong home prices, we are optimistic that recent trends in nonperforming single-family residential and specially mortgaged finance assets will stabilize or even reverse. We are seeing some more favorable trends developing for consumer loans in both our banking

subsidiaries and Washington Mutual Finance. As a percentage of total loans held in portfolio, the allowance for

loans and lease losses increased to 111 basis points in the first quarter from 87 basis points in the first quarter of 2001. Based on these developments we are optimistic that credit quality is heading in the right direction.

Next I would like to make a few comments about changes in our funding mix.

Approximately 70 percent of the 21.8 billion increase in deposits during the quarter came from the former Dime. Transactions, deposits continued to grow as a percentage of total deposits increasing from 62 percent in the first quarter of 2001 to 68 percent in the first quarter of 2002. Because of strong deposit growth, the proportion of total funding provided by deposits grew considerable during the first quarter. We are optimistic that our entry into New York and the addition of financial stores in New York and elsewhere will continue to fill strong growth and deposits.

Next a few comments about trends in the net interest margin.

As expected the net interest margin declined from 3.80 percent in the fourth quarter to 3.74 percent in the first quarter. The margin peaked in January at 3.91 percent and declined to 3.69 percent in March as asset yields continued to decline and borrowing and deposit rates stabilized. We expect this trend to continue so that by the end of the year, the margin should be in a range of 3 to 3.2 percent. The margin should be at the higher end of that range, if rates are stable and at the lower end if rates rise moderately beginning in the second half of the year, because noninterest-earning assets such as goodwill and

mortgage servicing rights have become a much larger portion of total assets. We now project that the normalized margin in a steady rate environment should be in the range between 2.9 and 3.1 percent, depending upon the mix of assets, earning assets and cost in liabilities. However, and it is a , however, remember that we earn servicing fees on mortgage servicing. These fees are components of noninterest income.

Now it is time to turn to the topic that we frequently get questions about, namely the value of mortgage servicing rights and our risk management strategies.

Loans serviced for others on which we earned fees and have a mortgage-servicing asset rose 81 billion during the firs quarter to 459 billion. Fifty seven billion of that 81 billion increase came from the former Dime. The mortgage-servicing asset increased 1.7 billion to 8 billion. Nine hundred and twenty six million of that increase came from the former Dime. A small increase in mortgage rates during the quarter coupled with an off setting impact of continued high prepayment rates

resolved it in a small 45 million impairment recovery leading to the mortgage servicing rights impairment reserve at slightly less than 1.7 billion. The remaining 743 million in mortgage servicing rights were additions net of amortization from our single-family residential mortgage baking operations.

The value of mortgage servicing rights as a percentage of loan serviced for others, increased from 165 basis points at the end of the fourth quarter to 173 basis points at the end of the first quarter. This resulted in a 3.7 multiple of the weighted average servicing fee of 47 basis points, compared with a 3.5 multiple of the average servicing fee of 47 basis points in the fourth quarter. Prepayment rates on loan service for others with capitalized mortgage servicing rights in our servicing portfolio declined from 33 percent in the fourth quarter to 28 percent in the first quarter, and should continue to decline unless

the mortgage rates fall in the coming months.

Next I will explain the t h r e a t s (ph) of mortgage servicing rights and risk management strategies and single-family residential mortgage banking income, which was 393 million in the first quarter.

A schedule listing the components of single-family residential mortgage banking is included in the financial tables accompanying the earnings press release. As a reminder, risk management strategies include both a natural business hedge and financial hedges. Primary drivers of the natural business hedge include net interest income earned on the amount of loans held for sale and above normal gain from loans. Now the entirety of gains from sales, both normal and above normal in now included in single-family residential mortgage banking income. However, net interest income on loans

per sale is included in net interest income and is not separately reported. That amount was significant because loans sold per sale declined only slightly during the quarter from 23.8 billion to 23.3 billion and the spread between the loan rate and the funding rate was large because of the current steep yield curve. Results of financial hedges are reflected in two other lines on the income statement. Loss from sale of other availables for sales securities, which appears in the noninterest incomes section and the extraordinary item line. Thus on a pretax basis, income for mortgage banking

operations during the fourth quarter adjusted for financial hedging transactions was approximately 169 million. This is computed by adjusting the 393 million in single-family residential mortgage banking income to reflect a 298 million dollar loss from sale of other availables for sales securities, which is a reduction to single-family residential mortgage banking income. And, to reflect the pretax gain of 74 million from the termination of repurchase agreements with a bettered interest rate floors which is the extraordinary item and is an increase to single-family residential mortgage banking income.

Now, the comparable amount for the fourth quarter was 198 million. In an effort to provide additional financial disclosure, we have added too many tables to the financial results section of our press release. That gives details of interest rate contracts

For asset liability management and mortgage servicing rights risk management. Stable shows that during the first quarter we diversified the mortgage servicing rights, financial hedge by purchasing 6.3 billion and received six s w a b s (ph) , 1.5 billion and options and a net additional 2.8 billion in embedded interest rate floors. These purchases raised the total m o t i o n a l (ph) of mortgage servicing rights, risk management instrument from 2.3 billion at December 31 to 13 billion at March 31.

We also increased the amount of investment securities year m a r k e d (ph) by 13.2 billion during the quarter in response to the 81 billion increase in our mortgage-servicing portfolio. In addition in the first two weeks of April, we continued to diversify the financial hedging instrument to adjust the effectiveness of the mortgage servicing rights hedge per changing market conditions. We are still having an additional 7.3 billion in investment securities, and purchasing additional derivatives with a notional amount of 9.4 billion including 2.5 billion in embedded interest rate floors, 6.4 billion in

received fixed slots and 500 million in receiver options.

Now I would like to make a comment about capital management.

In connection with the acquisitions of Dime and the Homeside assets, the tangible equity ratio at the end of the first quarter was slightly below our target of 5 percent, because we did not repurchase any shares of common stock during the first quarter. We expect to reach our 5 percent target during the current quarter.

Finally I will comment briefly on expenses.

The increase in noninterest expense from the fourth quarter to the first quarter was primarily driven by the acquisitions of Dime and Homeside Lending. During the remainder of 2002, we anticipate that noninterest expense will decline from first quarter levels.

And with that I will turn it back to Kerry.

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Thanks Bill,

Now I want to spend some time talking about the company's key area of focus for 2002.

First we view that there is a terrific opportunity to both focused on gaining further efficiencies from our recent acquisitions, and

make further progress in our key internal initiatives, which include the following.

First is our expansion of market shares in the major urban centers nicely in each of our key businesses, both consumer banking, our mortgage lending, and our multifamily lending activities.

Second is continuing to build our best in class of sales and servicing platforms and our mortgage business.

Third is successfully converting the Dime and establishing a major retail banking presence in the New York market.

Fourth is planning for additional new market roll outs of our innovative c a r f i e l d (ph) store model, the latest of which was

announced yesterday was our entry into the Denver, Colorado market.

And fifth is making further progress in our efforts to build a powerful national brand centered on this broad middle market consumer.

Now let me provide an update on our integration activities, which are proceeding along very well and according to plan.

First let me add some perspective about the substantial amount of work that has been accomplished to date and what still remains.

Since the beginning on 2001, we have closed on five acquisitions, beginning with the mortgage operations of PMC last January. PMC was followed by the acquisitions of Bank United, the mortgage operations of fleet, Dime Bancorp and its North American mortgage subsidiaries and finally the purchase of selected assets of Homeside Lending this past

March. In addition to closing these acquisitions, we have made all of the management integration decisions for all five of them. We have completed the majority of the system integrations now. Late in the first quarter of this year, we converted the loan servicing records of the mortgage operations of the Fleet Financials which represented the largest such conversion in the history if the mortgage industry. This e a q u l e d (ph) to about 2.2 million loans.

While we continued to monitor that integration closely all of the preliminary indicators are to a very successful

conversion. So, what integration activities still remain? Well there is still some work to do, but we can how see the light at the end of the tunnel with only the Dime deposit conversion and the North American loan servicing conversions remaining for this year.

Now our plans are to convert the Dime platform in later May, Memorial Day weekend, and to convert the North American loan servicing portfolio this coming fall.

Now keep in mind that there will be no loan servicing conversion for Homeside. We plan to retain Homeside for proprietary loan servicing system, as we believe that this system offers the potential for scalability and bring added efficiency to our mortgage operations. In fact we planned to convert the North American loan-servicing portfolio to the system we acquired from HomeSide.

Now, our integration is pleased with all of that has been accomplished over the past year or so, that is not to say that there haven't been some natural short-term challenges that go along with integrating companies. The combination of our acquisitions in 2001 in the largest refinancing market ever experienced in American history plays very high t e m p o r a r y (ph) demands especially in areas such as loan servicing.

Now to be fair, there has probably never been a system integration in the history of banking of Washington Mutual for that matter, that is a 100 percent done flawlessly, but those temporary challenges are a natural part of any complex system integration and we take them seriously, but the real key to a successful integration is managing through those challenges in a time manner, and that is exactly what our folks did in all of our conversions including and the loan servicing

area. They were quick to identify where we had some measures and have now responded to them in a very positive way.

So, let me now turn to some thoughts about capital deployment.

As Bill indicated, we deployed the majority of our excess capital in the first quarter to help facilitate the completion of the Dime transaction, now while this caused our capital to dip slightly below our long-term targets in the first quarter, it was a temporary occurrence. In fact as Bill stated we expect our capital ratios to return to a more normalized level near our long-term target of a 5 percent tangible equity ration during this quarter.

Looking ahead to the remainder of the year, we expect a primary source of capital deployment will be balance sheet growth

in opportunistic share repurchase. As I indicated before, our intention is to be internally focused in 2002. So, we see the likelihood of deploying capital for a major acquisition would be much lower than it has been in the recent past.

Now let us turn to earnings guidance for 2002.

We previously suggested that a range of between 3 dollars and 90 cents to 4 dollars and 10 cents per share seems reasonable with our status by seeing at the lower end of that range for full year 2002 earnings, and today we are once again confirming this guidance based on the following factors.

First that the net interest margin, as Bill mentioned will slightly trend down to a more normalized range as the year progresses.

Second, that assuming long-term interest rates remain stable or trends slightly higher we anticipate that adjustable mortgages to comprise a greater percentage of our mortgage origination volume. While this would reduce mortgage-banking incomes compared with recent quarters, we anticipate that it would be offset by additional net interest income

that would result from balance sheet growth as well as higher loan servicing income. Now if interest rates would have declined from the current levels, which is contrary to what most economists are predicting, we believe that we are adequately hedged to offset impairments to the value of our mortgage servicing rights that may occur with this. And of course if this would occur we would also expect higher gains from mortgage loans in that environment.

Fourth we expect to another retail banking fees, we will continue to track around the current very strong growth

rates for the remainder of this year.

Five, we anticipate that the noninterest expense will decline from its first quarter level as we continue with our follow thorough

our activities on our recent acquisitions.

And then finally we are assuming that the trend in credit quality will continue and loan loss provisioning will trend towards the net level of net loan charge-offs as the year progresses.

So, to recap, we expect another strong year of profitability for our company and view 2002 is an excellent opportunity to focus the majority of our efforts and gaining additional efficiencies from our recent acquisitions and making further progress in the major initiatives I highlighted earlier.

We believe that collectively these efforts will pay big dividends down the road as we build a powerful brand around three leading national businesses and consumer banking, mortgage lending, and multi-family lending.

Now we are ready to open it up for questions.

Before doing that just a reminder to everyone, that we will hold our quarterly investor day here in Seattle on June 25 and we of course cordially invite investors to join us for the evening before where we will be hosting a reception at two at one of our stores here in Seattle.

So, with that, let us open it up for questions.

Operator

Thank you sir.

At this time we will begin the question and answer session. If you would like to ask a question, please press star one on your touchtone phone. If you are going to speak with your equipment today, you may need to lift your handset prior to pressing the star one feature.

And, once again that is star one to ask a question.

Due to the number of people that have joined us today, please limit your questions to one per person.

And our first question comes from Howard Shapiro with Goldman Sachs

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QUESTIONS AND ANSWERS

Howard Shapiro - *Goldman Sachs*

Hai good morning, question for Bill on your perception (ph) on the losses on the available sale portfolio, Bill can you just give us a little bit more detail on how this is co-related with gains or losses to the valuation of Mortgage servicing rights? It was a large loss and the corresponding revaluation of the Mortgage servicing rights was only about 45 million during the quarter. And then finally should we view this on an ongoing basis as part of you Mortgage banking business--it was not included in the schedule?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Ok thank you Howard for that question. First of all again we are hoping that by the end of the year FASB will rescind FAS-4 (ph) for which requires us to state gains on the extraordinary basis below the line. So the embedded floors (ph), if those have been included in the sales available for sales securities it would not have been 298 negative, it would have been more like 224. So don't focus totally on the 298, focus on the 224. In addition, as we have been saying now for several quarters as we managed the Mortgage servicing asset, what we focus on is providing offsets to the variation in the Mortgage servicing from both natural and finances hedges. And, in this particular case, we had benefit also from higher net interest income on the warehouse line against that particular position.

Howard Shapiro - *Goldman Sachs*

So we have to include that as well as an offsets?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Yes, you would have to because in a quarter like this where you have rates rising slightly. What I said in my comments was that we also had still higher pre-payments, which was partial Offsets. So it turned back the recovery on the Mortgage servicing rate asset and then we used the extra net interest income from the natural business hedge to manage the total situation and Offset some of the losses on the securities.

Howard Shapiro - *Goldman Sachs*

Ok thanks.

Operator

Thank you. Our next question comes from Bruce W. Harting with Lehman Brothers.

Bruce W. Harting - *Lehman Brothers*

Hai just a clarification, you said the G&A line would be down. Is that in absolute dollar or a percentage of growth to the balance of the year? And then on the, you know assuming I am just curious what kind of payment levels are you seeing in recent weeks and hopefully for the balance of this year and the foreseeable future of this whole MSR issues and hedging of servicing portfolio is going to yesterday's concern? And having said that, on the balance sheet, I am just wondering the increase in investment securities from 30 billion to 42.9 was that just from the acquisition of Dime or where you intentionally building that upward and can we see that go down--that you don't need to use hopefully, prospectively those securities position we are hedging?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Ok Bruce you managed to ask three questions under one here, I will answer them quickly. On the G&A growth, the statement was reduction in absolute dollars from the first quarter level, in other words decline in absolute dollars as the year progresses. In terms of the pre-payment levels, I did mention for the Portfolio loans that we have serviced for others, which is the one that is connected with the Mortgage servicing rights, that pre-payments did decline from 33 percent in the fourth quarter to 28 percent in the first quarter. We expect pre-payment levels to decline further in the current quarter based on the fact that the Mortgage rate picked up slightly in the first quarter. We are seeing in terms of applications, the downward trend. So, I would expect that to, and as that occurs as you point our, it will change the dynamics on the servicing fee income part of the Mortgage servicing asset and will result later in the year in higher servicing fees. As for the investment securities that increase was directly in connection with the acquisition over 900 million and servicing rights from the Dime and is part of our overall Hedging strategy. And increasingly as I had pointed out during the prepared remarks we are diversifying that Hedging strategy using a variety of derivative instruments as well as investment securities. And I just noted that we sold 7.3 billion of those securities in the first two weeks of April, so the actual amount now outstanding is closer to 34 billion, 35 billion.

Bruce W. Harting - *Lehman Brothers*

Thanks.

Operator

Thank you very much. Our next question comes from Jonathan E. Gray with Sanford C. Bernstein.

Jonathan E. Gray - *Sanford C. Bernstein*

Ah.. yes given the likelihood of a sharp continuing rise in ARM share of US originations and looking at your market share. It looks like if your ARM will produce very rapid loan growth this year, unless you decide to sell in addition to fix rate loans some of your medium terms ARMs. It is reasonable to assume that that's the priority that you would tend to prioritize retention of short-term rate sensitive ARMs over medium term and certainly long term fixed term loans? Could you indicate, what kind of loan growth would you tolerate as a maximum rate of loan growth?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Well Jonathan thank you, I will let Bill grasp for some numbers behind it, but certainly we are optimistic that in that environment we will see an increase in the adjustable rate origination volumes. And as I mentioned in my comments we are anticipating that the primary deployment of capital in our company for the balance for the year will be in supporting asset role. And as Bill mentioned from a capital standpoint we think that, well within the first quarter, we will be back to our tangible capital ratio of at least 5 percent. And with our current capital generation, we can support, I think, a very strong growth in the asset levels. Our first priority would be to retain the short-term adjustable rate of mortgages. As we move down that scale, of course we have a kind of a mixed appetite in the intermediate term ARMs and that could we could easily retain some of those and sell some of them. As you know we predominantly sell all of the fixed rate loans that would be coming in. So, we would very much welcome an environment in which we could see a higher proposition of short-term adjustable rate assets for retention on balance sheet.

Unidentified

Hai, just two additional comments, Jonathan. We did at the end of the first quarter sell slightly over 3 billion in intermediate ARMs to investors. And, we will continue to do sales of that sort. And, we have in the past, not recently, but in the past sold the short terms ARMs, which we could do again if growth was so substantial that it exceeded our kind of natural capital supported growth.

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

I would only add that one of the options we would have with our balance sheet at that point is the potential of some assets substitution. If we could currently have some existing assets, that we would find to be less attractive on a long-term basis than adjustable rate on mortgages. I think we again would look forward to an environment in which adjustable rate mortgage originations were to accelerate.

Jonathan E. Gray - *Sanford C. Bernstein*

Thank you.

Operator

Thank you very much. Our next question comes from R. Jay Tejera from Wells Fargo Van Kasper.

Jay Tejera - *Wells Fargo Van Kasper*

Good morning pertaining to, it looks like an the acceleration of the checking account growth, if I did my math right it was up at about at 22% rate from the December quarter, which is pretty extraordinary, if that is correct but there also seemed to be a slowing in the service charge fee income. Could you tie those two together and maybe give us some kind of outlook for that business?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Thanks Jay, and I will again talk in general and maybe Bill can tell a little bit more on the numbers. We did have a very strong quarter for checking account originations and they really came from two major sources. One is our traditional free checking product, which as you know has a propensity to drive very strong fee income growth. But the second and this a kind of a newer phenomenon for us, it has been the accelerated growth in our platinum checking account, which is more of a higher balanced checking accounts targeting for the customers that have multiple relationships with us, and higher overall balances. And on those particular accounts that drives benefits to us primarily through net interest income because of their deposit balances that are coming into our organization so we earn a spread income whereas the more traditionally free checking product is what primarily drives the growth in the fee income. So, I think the consistency there is that we were very positive with the growth of the fee income. That reflects continued strong growth in this free checking product and then the incremental volume that you saw of checking accounts in the platinum accounts is primarily producing the deposit growth that we are otherwise seeing.

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Just a couple of added comments Jay. The free checking account growth in the quarter was about comparable to previous quarters. So all of the increase that you are seeing in the accounts as Kerry mentioned is from the Platinum accounts. Also as to the fee income, the first part of the year is always the seasonally low quarter of the year, so if you compare it simply with the previous quarter you would expect to see actually very small increase, which is the case. It is up 29 percent over the first quarter of last year, which is a more appropriate comparison. The second comment I would make is that we are seeing some, what we believe to be modest negative effects from the slowing economy and the pullback in retail sales.

Jay Tejera - *Wells Fargo Van Kasper*

Thank you very much.

Operator

Thank you very much. Our next question comes from Vivek T a n e j a (ph) - JP Morgan.

Vivek Taneja - *JP Morgan*

Hai Bill, a question for you on more than you for Kerry, on just the average gain on sale seems to have declined during the quarter. Could you comment a little on that particularly in light of the fact that the rate of capitalization of your MSR is running at a higher rate then the value at which it is being calculated at the end of the year?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

There are two reasons for the apparent decline in there; I will just the explanation with the average gain in sales. Actually on the primary residential loans was unchanged from the fourth quarter to the first quarter, so that gain rate was intact, but we had two things that drove the gain rate down. When you look at it from a total point of view that our l o n g b e a c h (ph) special Mortgage finance loans was put into the securities in sales, that gain rate came down considerably from the fourth quarter. That has to do just as you understand why that occurred. The rates were sticky in that particular sector of the lending market and when rates were falling sharply last year there was a lagging effect in the adjustment of the rates on the loans, and so we were able to put them into securities at above normal gain rate. In the first quarter, the gain rate returned to a more normal level, but that resulted in a substantial difference in the gain rate when compared with the fourth quarter. The other factor has to do with the fact that we are required to recognize gain on loans which have rate locks, but that yet have not been put on our warehouse and not yet have been funded and because of the reduction in applications, what is happening now is that the pipeline is beginning to thin out. And on the locks, we have far fewer of them so there is a reversal in this particular quarter in the amount of gain on a net basis from the previous. So, those two factors, specially the Mortgage finance loans and the reduction in the rate lock accounted for the entire reduction in the dollar amount of the gain and also in the rate.

Vivek Taneja - *JP Morgan*

Thank you.

Operator

Thank you very much. Our next question comes from Richard A. Ekcert - Wedbush Morgan Securities.

Richard A. Ekcert - *Wedbush Morgan Securities*

Hai, this is a question for Bill. I have a question on the capitalization of the MSRs increasing it by looks like eight basis points. Is that due to a lower cupon rates on newly originated loans, increased custodial on warehouse incomes, or are there other factors?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

Well it is a little bit more complicated than that, Richard. The MSR capitalization is kind of the mix with the old loans, but also with the new loans, and we go through the revaluation and you saw the 45 million-impairment recoveries, which was a boost to the old loans, but the new loans are also capitalized at current market rates. So you get a kind of the mixing of the two the old and the new and that accounts there for that b l e n d e d (ph) eight basis point increase in the Mortgage servicing rate.

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

I think the other comment of course the Mortgage servicing rights are required to be market-to-market. Two of the most important variables that has factored into the whole portfolio of pre-payment speeds. As Bill mentioned there is a slight improvement in the pre-payment speeds in the quarter from the previous quarter, so that would have the impact.

Richard A. Ekcert - *Wedbush Morgan Securities*

And also what won't rise up at the long end of the both the flat and in the treasury curve, wouldn't that impact there expected pre-payment speeds? Do you expect to see those tail-off significantly?

Unidentified

Oh yes that is the comment I made, they actually were down during the quarter slightly and you would expect them to continue to climb but the Mortgage rate itself was up only a few basis points during the quarter. So it did not have a

dramatic effect.

Richard A. Ekcert - *Wedbush Morgan Securities*

Thank you very much.

Operator

Thank you. Our next question comes from Gary Gordon with UBS Warburg.

Gary Gordon - *UBS Warburg*

Ok thanks, quick one on the MSR, the amortization rate I guess you quoted about in your servicing portfolio was in the high 20's. I came up with those about a 5-6 percent point lower amortization rate in the MSR. So your MSR has slow rates in the prepayment, I know this is a complex issue, but is that, what will you explain ?

Unidentified

The amortization rate is done kind of a more normalized longer-term basis we do increase it, obviously, when prepayment escalate decrease, when prepayment shrink, but it's not done on a day-by-day basis. It's a smooth out more in longer-term expectations, and so you would expect here. And that is why I made the comments during another question that servicing will increase later in the year as the amortization rates come down, provided that prepayment levels do come down on a sustained basis. But for the near term, Gary you should expect still to have a very high amortization rates. You made a good observation that you can watch the amortization rate with prepayment rate to anticipate where servicing fees will be going in the coming quarters.

Gary Gordon - *UBS Warburg*

Ok, thank you.

Operator

Thank you. Our next question comes from Paul J. Miller with Friedman, Billings, Ramsey.

Paul J. Miller - *Friedman, Billings, Ramsey*

Hey thanks, on your account, Bill, we have been hearing that you are paying like a 4 percent yield on those type of accounts. Can you just make a comment if that's true and if it is true, if you are paying 4 percent on some of those accounts; do you plan to keep it at a 4 percent yield or do you plan to lower it?

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

The current rate is below 4 percent. Understand if there is a p l a n t (ph) it intended to be 3.25 percent within a week or so. And, if that was done intentionally at this particular point in the cycle where rates were very low. We've done substantial research of all that shows that this type of account is highly likely to have a high stickiness. It is clearly mentioned it's a high balance account; it's aimed at customers with other relationships with us and we do fully expect that the rate will be in line with the kind of normal money markets rates in few months.

Paul J. Miller - *Friedman, Billings, Ramsey*

Thanks.

Operator

Thank you. Our next question comes from Greg Alexander - Roney Conexant Company.

Greg Alexander - *Roney Conexant Company*

I just wanted to ask first of all can you tell us just very roughly, what's your model is, for how deposits and number of accounts would happen in your new Occasio branch, in a general sense if you can? I was just curious on the, if you could distinguish the number of checking account, which would be platinum as compared to free checking and those were added in the quarter?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Well Bill may be looking for some data on the second question. We have provided some data in the past about the progress on the Occasio branches. It's fairly complex about the different kind of account flows and so forth that come off that. I guess I would encourage you to may be come off line and talk to investor relations so you get the material from the presentations that we've given in the past rather than trying to go through that full model online here.

William Longbrake, - *Washington Mutual - Vice Chairman and CFO*

And In terms of the total 686,000 increase in checking accounts during the first quarter, 359,000 came from the acquisition of former Dime. The 216,000 of increase was platinum and 111,000 increases were other types of checking accounts.

Greg Alexander - *Roney Conexant Company*

Ok, thanks a lot.

Operator

Thank you. Our next question comes from Bill B e z o l o n e (ph) with Davidson Investment A d v i s o r s (ph) .

Bill Bezolone - *Davidson Investment Advisors*

Thank you. Bill I was hoping that you would give us a general overview of the differences in your hedging structure today versus a year ago?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

I will answer that question. A year ago, we had only about 1 billion in servicing rights, now we have 8 billion, so there are very substantial changes. What we are in the process of doing as I said is diversifying the hedge so that we have a variety of financial instruments and we are doing that. For couple of reasons, one is, we want to conserve capital and the previous strategy that was heavily concentrated investment securities with that achieved that objective. Also for those who are knowledgeable about servicing rights, they have the that the values do not move in a straight line with interest rates and so it is important to have a diversity of different hedging instruments that take into account how the value of the servicing rights would change either in falling rate environments or in rising rate environment. So, that is essentially what we are up to now. It's just a pretty more diverse strategy that uses a variety of instruments and that we expect to be effective in any type of rate environment.

Bill Bezolone - *Davidson Investment Advisors*

Now, what would you say if I paraphrase and said that a year ago you weren't as focused on the convexity of the MSR's and were focused more on lending or hedging, if I may, and today you are far more focused on trying to get the proper shape of that curve matched?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

It was a part of my comment. It wasn't a big deal for us relative to the total size of our business. It just didn't matter the natural business hedge, it could pick up most of it. And a year ago also, we were in the environment where everybody expected rates to fall. And so a linear strategy as you referred to actually was a very appropriate for falling rate environment. But it's not an appropriate strategy for rising rate environment. So again we just feel that we have a strategy here now that's going to be much more responsive to any rate environment whether it be increases or decreases in rates.

Bill Bezolone - *Davidson Investment Advisors*

Thank you.

Operator

Thank you. Our next question comes from James A l m e n (ph) with Merrill Lynch.

James Almen - *Merrill Lynch*

Good morning. Just can you give us an idea as to what sort of efficiencies you might see in your motor servicing business? If its a home side system that you mentioned? What sort of impact will that have and over what time frame?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Yeah, let me address that one. I will just refer back to the general comment I made about absolute declines in expenses as the year progresses. We are right at the peak point here in the first quarter of having absolutely the highest expenses possible in our mortgage banking business, particularly in the servicing side. But we have now with the completion of the Fleet conversion, and actually what we believe to be an improving environment going forward for non-performing assets in the single-family residential area. We expect the cost in the servicing area of our business to come down substantially as the year progresses.

James Almen - *Merrill Lynch*

Thank you.

Operator

Thank you. Our last question comes from Robert W a g n e r (ph) - Private I n v e s t o r (ph) .

Robert Wagner - *Private Investor*

Gentlemen, thank you. As a more than two year investor in WM, I am thrilled with the success you have had and you know a big question I have is, what are your thoughts, as to why our P/E, which is hovering around 10, closure than 9 of the US projections, and why can't we get there up on 12?

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Laughter... That is a great question and we certainly, from the managements point of view we think the price earnings ratio is very low in relation to the consistent earnings growth that we have had over many years; the return characteristics of the company, and the opportunities that we see for developing powerful national franchises in our key business areas. So we would agree that the that the P/E ratio is not what it should be, and our first job will be to focus on producing the financial results that earn the right for a much higher P/E and then doing the best job we can of explaining the strategies and outcome of our results to capital markets. Then we figure that the capital markets will eventually take care of itself on that front. In the mean time, if the markets that have chosen to mis-value our company from our point of view, we always have the option of share repurchase and we haven't been afraid to use that aggressively in the past. And, if we have that opportunity again we will do that. But on long-term basis, we will also try to communicate our success as best we can so that the street has the best opportunity to value our company the way it should be.

Robert Wagner - *Private Investor*

Well thank you. As a platinum account holder also I thank you for your wonderful success for last few years and continue good success.

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Well thank you very much.

Operator

Thank you. Now I would like to turn the call back to Mr. Killinger for any closing remarks.

Kerry Killinger - *Washington Mutual - Chairman, President and CEO*

Well that is fine. I think we are again... once again thanks to everybody for joining us today. Again, as always if you have follow up questions, be sure you again get in touch with investor relations and I hope we can see as many of as possible on June 25 at our quarterly investors day.

Operator

Thank you all for joining today's call and have a nice day.

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

- Q1 2002 Lufkin Industries Earnings Conference Call

EVENT DATE/TIME: APRIL 17, 2002 / 2:00PM GMT

CORPORATE PARTICIPANTS

Douglas Smith *Lufkin Industries - President and CEO*

Bob Leslie *Lufkin Industries - CFO*

CONFERENCE CALL PARTICIPANTS

John Freeman (ph) *Raymond James*

Hardin Bettia (ph) *Deprince, Race and Dollo*

PRESENTATION

Operator

Please stand by. Good day and welcome to this Lufkin Industries conference call. Today's call is being recorded.

At this time, for opening remarks and introductions, I would like to turn the call over to the president and chief executive officer Mr. Douglas Smith.

Please go ahead, sir.

Douglas Smith - *Lufkin Industries - President and CEO*

Thank you, operator, and good morning. Welcome to the Lufkin Industries first quarter conference call for the period ending March 31, 2002.

With me this morning is Bob Leslie, vice president, treasurer and chief financial officer; and C h r i s B o o n (ph) , corporate c o m p t r o l l e r (ph) . After my brief remarks, Bob will provide you with more detail on our financial results. After our remarks we will respond to any specific questions you may have.

I would first like to read our safe harbor language.

The conference call today may contain certain forward-looking statements including, by way of illustration, and not of limitation, statements relating to liquidity, revenues, expenses and margins. The company strongly encourages listeners to note that some of all the assumptions upon which its forward-looking statements are based are beyond the company's ability to control or estimate precisely, and may in some cases be subject to rapid and material changes.

I would like to report that for the first quarter of fiscal 2002, Lufkin Industries has net income of $188,000, or three cents per share, compared with $3.1 million, of 49 cents per share, for the first quarter of 2001. Overall sales were down 18 percent compared to the first quarter of 2001.

As anticipated in our last conference call, overall sales were down 22 percent from the fourth quarter of the year 2001, reflecting the weaker oil field markets and lower shipments from power transmission.

In contrast to the lower sales report, our overall backlog is up 4.3 percent from the fourth quarter 2001. Backlog increased in all product areas except the trailer products, where the backlog fell 15 percent.

We entered 2002 concerned about the early months of the year because of depressed energy prices and the slow recovery from the recession. The recovery in the industrial sector of the economy appears to be under way, but at an uncertain pace. Uncertainty is certainly the word for energy prices as we all experience the daily fluctuations driven largely by geopolitical events. But the underlying factors of supply and demand are having an effect as well.

Our trailer business showed improvement in shipments, with a 12 percent increase form last quarter. Bookings were down, however. And we remain concerned about the 2002 demand.

Q u o t a t i o n (ph) activity indicates some improvement, but our trucking customers have not reported significant increases in freight tonnage yet. Fuel increases and insurance hikes have complicated their outlook. Surplus inventories have been worked off in our trailer operations, and planned activity is up to a 40 percent utilization rate.

Some market segments, such as dump trailers for construction work, have actually increased. One supplier of forklifts, a customer of our foundry, is increasing production in anticipation of greater demand for material handling applications.

In general, the economists' view and a few indicators give some optimism, but new orders for trailers have not been received. We are obviously well positioned to respond the improving conditions.

Our backlog in power transmission grew again this quarter, mostly reflecting a weak level of shipments -- down 18 percent from the fourth quarter 2001.

Our market position is in the custom engineered gearing, typically serving large projects. The improved bookings received in the fourth quarter of 2001 are now released from engineering and moving into production. This will result in much improved factory utilization and stronger financial performance beginning this second quarter of 2002.

The industrial markets, such as steel, sugar, rubber, et cetera, are slowly recovering. The common forecast is still that U.S. manufacturing and industrial capital spending will begin to rebound in the second half of 2002. Recent small increases in capacity utilization indicate that there are signs of life in the manufacturing sector of the economy. These industrial markets comprise a large part of our after-market activity today. However, our participation in the energy sector has given us early opportunities with new gearing. Our backlog of new units is made up of orders from refineries, power generation applications, petrochemical applications, and the marine sector.

The Clean Fuels Act is driving a number of refinery projects, and oil and gas projects continue to be quoted.

One of our U.S. competitors in the custom engineered high-speed gearing business exited this quarter. While U.S. competition has been lessened, we still must contend with the European competitors and the strong dollar. We have a strong competitive position with a wide customer base, especially in the A P I (ph) markets. We are expanding our after-market capabilities in the United States and also expanding our new gearing capability in Europe. We are cautiously optimistic in our outlook for power transmission.

The downturn in the oil field area is reflected in shipments down 30 percent from the fourth quarter 2001. Our service and automation work did not decrease significantly, but demand for new pumping units feel approximately 50 percent; however the small backlog from pumping units grew by 25 percent while the overall backlog grew 13 percent. Many of our customers are in the wait-and-see mode, much as we are, but quotation activity has picked up in recent weeks.

Lufkin Industries has downsized in response to this downturn, but still is ready to respond to a changing market. Given the situations in the Middle East, Argentina and Venezuela, we are left to speculate on disruptions and the prices. This obviously is the biggest uncertainty and opportunity in our business and in our company's financial outlook.

As you have seen in our press release, the earnings guidance, which we have offered indicates an estimate of earnings in our second quarter between and 15 and 25 cents per share and for the year, 80 to $1.20. Lufkin Industries if financially positioned to both weather this downturn and to respond to a rapidly changing situation. We have taken all the usual actions to contain cause to shift resources.

Finally, our strong balance sheet allows us to pursue growth opportunities during this time. Bob Leslie, our CFO will continue with the presentation and review the detailed results of our three business units.

Bob Leslie - *Lufkin Industries - CFO*

Thank you Doug. Good morning to all conference call participants and thank you for your interest in Lufkin Industries.

As part of today's financial presentation, I will provide you with a brief discussion of the first quarter of 2002, along with comparison of the same period of 2001. We will discuss key performance indicators such as revenues, margins, SG&A expenses, EBITDA. The discussion will end with key balance sheet components, such as cash flow and long-term debt, as of quarter ending March 31st, 2002.

As Doug indicated the company reported first quarter revenues of $51 million as compared to 63.5 million for the first quarter of 2001. This represented a $12.5 million or 20 percent reduction in revenues due primarily to oil field revenues.

Trailer revenues during the first quarter of 2002 increased to 9.3 million, up 2.4 million or 35 percent over the first quarter of 2001.

Power transmission revenues of 13.6 million were almost flat with the first quarter of 2001. The company's first quarter backlog increased to 67.3 million as compared to 64.6 million, as of the year-end 2001.

Oil field and power transmission backlogs were up 13 percent and eight percent respectively.

Trailer backlogs decreased $2.1 million or 16 percent to 11.4 million compared to 13.5 million at year-end 2001.

Compared to the first quarter of 2001, the company's backlog of 67.6 million was down 1.3 million or two percent. Oil field's backlog of $22 million was down 8.3 million or 27 percent. Power transmission's backlog of 33.9 million was up 7.2 million or 27 percent from the first quarter of 2001.

Trailer backlog was basically flat as compared to the same period of 2001. Gross margins declined to 16.1 percent of revenues as compared to 23.3 percent for the first quarter of 2001, reflecting the switch in product mix away from oil field product towards power transmission and trailer.

Selling, general, and administrative expenses for the first quarter of 2002 were reported at $8.0 million as compared to $9 million for the first quarter of 2001, and 8.5 million for the fourth quarter of 2001. When compared to the first quarter of 2001, SG&A expenses for the first quarter of 2002 reflected reduced legal accruals and a reclass to cost of sales associated with cost relating to the startup of our Egyptian service contract. Going forward, $8.5 million per quarter is a more representative quarterly SG&A spending level.

Net income of 188,000 or three cents per diluted share exceeded the company's projection of a small loss to a break-even situation as we reported in our February 13th, 2002 earnings release.

EBITDA for the first quarter of 2002 was $3.2 million of six percent of revenues compared to $8 million or 13 percent of revenues in the first quarter of 2001. The company experienced 3.1 million of negative cash flow during the first quarter of 2002.

During the quarter, the company paid dividends of 1.2 million, made capital expenditures of 1.5 million, paid down current liabilities of 4.5 million, and paid down long-term debt by $400,000.

Sources of cash during the quarter came from the pull down of trade receivables of 3.7 million and cash income including the depreciation add-back of 1.7 million.

The company ended the quarter with $15 million in cash and cash equivalents as compared to 18.1 million as of year-end 2001.

Long-term debt was $261,000 as of the end of the quarter.

This concludes the financial review, and I would like to turn it back Doug. Thank you very much.

Douglas Smith - *Lufkin Industries - President and CEO*

I think we're ready to accept questions now.

QUESTIONS AND ANSWERS

Operator

Thank you gentlemen. Our question-and-answer session will be conducted electronically. If you would like to ask a question, please press the star key, followed by the digit now on your telephone.

We'll take your questions in the order that you signal us and we'll take as many questions as time permits.

Again, if you would like to ask a question, please press star-one and we'll pause for just a moment.

Our first question comes from J o h n F r e e m a n (ph) with Raymond James.

John Freeman - *Raymond James*

Good morning guys.

Douglas Smith - *Lufkin Industries - President and CEO*

Good morning.

John Freeman - *Raymond James*

First question is what percent of the oil field backlog is from international orders? And just a rough estimate.

Douglas Smith - *Lufkin Industries - President and CEO*

I would guess that number to be somewhere in the 30 to 45 percent range, J o h n (ph) .

John Freeman - *Raymond James*

OK.

Douglas Smith - *Lufkin Industries - President and CEO*

We'd have to check that to get specific. You know, the Canadian market, some of that backlog shows up here in the United States. But yeah, historically that number is more like 50 percent.

John Freeman - *Raymond James*

OK.

Douglas Smith - *Lufkin Industries - President and CEO*

But I think it would be slightly lower than that at this given time, primarily because of the mix. The mix being that our service and automation work has a real domestic slant to it. Automation is becoming more of an international mix in terms of its sales, but the pumping unit part of our backlog itself, the part that contracted at the end of last year's begun to rebill, that would have a more international mix to it.

John Freeman - *Raymond James*

OK, and have you all been impacted much at all by the Venezuela situation?

Douglas Smith - *Lufkin Industries - President and CEO*

The Venezuela situation for us has been awfully quiet for the last three years, quite frankly, and so it depends on what time you're period you're comparing to. We did do some business last year with direct sales, but mostly not to P e t a V e s a (ph) . The P e t a V e s a (ph) market has been quite quiet for some time. So if we compare to the last two or three years, we really are not negatively impacted if we compare to, you know, 10, 15 years ago, it's a big deal.

John Freeman - *Raymond James*

Right.

Douglas Smith - *Lufkin Industries - President and CEO*

We'll be anxious to see how that develops down there. We have business in our backlog now for Venezuela and it will be interesting to see what happens as some of these issues get sorted out down there that we're reading about every day.

John Freeman - *Raymond James*

Right. And what's been the general pricing trend in the oil field. Have you all be able to hold prices pretty steady or had to come down some?

Douglas Smith - *Lufkin Industries - President and CEO*

There's been a little bit of softness in the prices, J o h n (ph) , but not a whole lot. There obviously is some additional capacity out there and particularly if you're competing for large orders. I don't know that that's anything particularly new.

John Freeman - *Raymond James*

Right, so, I mean nothing major as far as any price weakness.

Douglas Smith - *Lufkin Industries - President and CEO*

No, that's not true.

John Freeman - *Raymond James*

OK. And then on the trailer side, what would be the typical lead times in that segment or, I mean, basically I'm trying to get an idea of how long it takes an item to move out of the backlog.

Douglas Smith - *Lufkin Industries - President and CEO*

The lead times have become certainly more compressed now. It is not common that you would ship one in less than say a six-to-eight week period, but you know, those lead times are getting shorter and shorter. If you went back a year or two, you would say it's a four-to-six month period from booking to shipment, but obviously, with all the surplus capacity, you can do shipments. You can book in and out during a given quarter.

John Freeman - *Raymond James*

Because, basically what I'm trying to look at is I'm trying to get some kind of like trend in that market and I mean, you know, last quarter, your backlog jumped 180 percent and then this quarter declined 15 percent, but I'm trying to get an idea of well, was that because a lot of the backlog got worked off in this current quarter.

Douglas Smith - *Lufkin Industries - President and CEO*

Well that is certainly true. Clearly the shipments exceeded the bookings for this first quarter. We booked in one large order during the fourth quarter and as of this time, that order has not been replicated, you know, there's always stories and opportunities that are coming up in the next few weeks, that's typically what we expect to hear from our sales force, but there's no doubt there's still softness in this market that's kind of worrisome. But I would say if you wanted to take an average that what we book in would be shipped out in a two-month period now days.

John Freeman - *Raymond James*

OK, two months. And the last question I've got is on the significant order, you all started to see on the pumping units for new pumping units. Any idea kind of on a just in a very rough, again, breakdown on kind of where those are going?

Douglas Smith - *Lufkin Industries - President and CEO*

I'm sorry.

John Freeman - *Raymond James*

Between, based on, you said basically you've had like a 25 percent increase recently in pumping units, for new pumping units.

Douglas Smith - *Lufkin Industries - President and CEO*

Oh yeah.

John Freeman - *Raymond James*

Where's the breakdown on that?

Douglas Smith - *Lufkin Industries - President and CEO*

Where did the increase come from?

John Freeman - *Raymond James*

As far as is it international, is it some domestic?

Douglas Smith - *Lufkin Industries - President and CEO*

I'll have to speak off the top of my head, on this we did have stronger bookings in the international sector, so we've got everything from Indonesia, Egypt, Canada, believe it or not, Argentina is still hanging in as a relatively good market. The, if I look at the contraction, the contraction was greater in the domestic market than in the international sector. And so again, giving you half a guess here, John (ph), I would say probably half of those increased bookings came from the international sector as opposed to the domestic, maybe more than that.

John Freeman - *Raymond James*

OK. All right, well that will do it for me guys. Thanks a lot.

Douglas Smith - *Lufkin Industries - President and CEO*

Thank you.

Operator

There are no further questions in our queue. Again, as a reminder, please press star-one if you do have a question. Again, we'll pause for a moment.

Our next question comes from Hardin Bettia (ph) with Deprince, Race and Dollo (ph).

Hardin Bettia - *Deprince, Race and Dollo*

Hello, how are you?

Douglas Smith - *Lufkin Industries - President and CEO*

Good morning.

Hardin Bettia - *Deprince, Race and Dollo*

I have a quick question here regarding kind of your cash flow outlook for the remainder of the year. I didn't know if you would provide any color or outlook for cash flow?

Douglas Smith - *Lufkin Industries - President and CEO*

We do not have a projection prepared to put out there. I mean if you followed Lufkin Industries for any time, I mean, typically this is the conservative element of our business in terms of managing the caseload. But we certainly have a more modest flow of cash coming in this year from the standpoint of the decreased earnings compared to last year. And there'll be some rebuilding of the business with receivables, but if we add that up with the capital budgeting scheme, et cetera, our internal budget at this time, essentially shows our cash flow to be flat for this year. That would be by the time we reached the end point of the year. There will be fluctuations along the way. Very much is going to be tied to what growth takes place here and particularly the volatility in the energy markets.

Hardin Bettia - *Deprince, Race and Dollo*

OK, I guess would the cash on your balance sheet, you mentioned possibly being, having the strength to pursue growth opportunities during this downturn. Do you have anything more specific in mind or?

Douglas Smith - *Lufkin Industries - President and CEO*

We do not have anything specifically in mind in regards to acquisitions. We're always looking for opportunities, particularly to reinforce our service and automation part of our business in the oil field. We are, as I mentioned, we do have some capital investment plan to expand our after-market business in the gear repair business. That's typically a pretty good business.

And we have a big, we have a good presence in the southeast part of the United States, and we plan to go in with the Greenfield site to expand that opportunity.

And then we are also expanding our capability in our French plant to, not only take care of our market that we think has bottomed out, but also to try to take advantage of the strength of the euro or the weakness of the euro relative to the dollar. So we have some internal issues to look at and we'll continue to look at external opportunities.

Hardin Bettia - *Deprince, Race and Dollo*

OK, very good. Thanks.

Douglas Smith - *Lufkin Industries - President and CEO*

Thank you.

Operator

And Mr. Smith, there are no further questions in our queue at this time, so I'd like to turn the conference back over to you for any additional or closing remarks.

Douglas Smith - *Lufkin Industries - President and CEO*

OK, thank you. I'd like to thank all of you for your interest and participation today. Our 100th anniversary this year has provided us a great opportunity to meet with more of our customers and our other shareholders. The experience and loyalty of our employees and customers is really pretty amazing. It's this daily reinforced reputation for reliability, expertise and service that makes us most optimistic about the coming years. So thank you again for your time today.

Operator

And that does conclude today's conference call. Thank you for your participation.