

CATHAY GENERAL BANCORP
Form 10-Q
May 08, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from _____
to _____

Commission file number 0-18630

CATHAY GENERAL BANCORP

(Exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction of incorporation
or organization)

95-4274680
(I.R.S. Employer
Identification No.)

777 North Broadway, Los Angeles, California
(Address of principal executive offices)

90012
(Zip Code)

Registrant's telephone number, including area code: (213) 625-4700

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer R Accelerated filer "

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Non-accelerated filer ☐ (Do not check if a smaller reporting company) ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

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

Common stock, \$.01 par value, 49,416,526 shares outstanding as of April 30, 2008.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
1ST QUARTER 2008 REPORT ON FORM 10-Q
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Forward-Looking Statements

In this quarterly Report on Form 10-Q, the term "Bancorp" refers to Cathay General Bancorp and the term "Bank" refers to Cathay Bank. The terms "Company," "we," "us," and "our" refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management's beliefs, projections, and assumptions concerning future results and events. These forward-looking statements may include, but are not limited to, such words as "believes," "expects," "anticipates," "intends," "plans," "estimates," "may," "will," "should," "could," "predicts," "potential," "continue," or the negative of such terms and other comparable terminology or similar expressions. Forward-looking statements are not guarantees. They involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties and other factors include, but are not limited to adverse developments or conditions related to or arising from:

- deterioration in asset or credit quality;
- acquisitions of other banks, if any;
- fluctuations in interest rates;
- expansion into new market areas;
- earthquake, wildfire or other natural disasters;
- competitive pressures;
- legislative and regulatory developments; and
- general economic or business conditions in California and other regions where the Bank has operations.

These and other factors are further described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, (at Item 1A in particular) its reports and registration statements filed with the Securities and Exchange Commission ("SEC") and other filings it makes in the future with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, we caution readers not to place undue reliance on any forward-looking statements, which speak to the date of this report. The Company has no intention and undertakes no obligation to update any forward-looking statement or to publicly announce the results of any revision of any forward-looking statement to reflect future developments or events.

The Company's filings with the SEC are available to the public at the website maintained by the SEC at <http://www.sec.gov>, or by requests directed to Cathay General Bancorp, 777 North Broadway, Los Angeles, California 90012, Attn: Investor Relations (213) 625-4749.

PART I – FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS (Unaudited)**

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2008	December 31, 2007	% change
	(In thousands, except share and per share data)		
Assets			
Cash and due from banks	\$ 115,171	\$ 118,437	(3)
Short-term investments	3,670	2,278	61
Securities purchased under agreements to resell	305,000	516,100	(41)
Long-term certificates of deposit	-	50,000	(100)
Securities available-for-sale (amortized cost of \$2,438,702 in 2008 and \$2,348,606 in 2007)	2,451,549	2,347,665	4
Trading securities	93	5,225	(98)
Loans	6,918,849	6,683,645	4
Less: Allowance for loan losses	(67,428)	(64,983)	4
Unamortized deferred loan fees, net	(10,020)	(10,583)	(5)
Loans, net	6,841,401	6,608,079	4
Federal Home Loan Bank stock	66,473	65,720	1
Other real estate owned, net	16,699	16,147	3
Affordable housing investments, net	97,730	94,000	4
Premises and equipment, net	82,706	76,848	8
Customers' liability on acceptances	31,191	53,148	(41)
Accrued interest receivable	42,197	53,032	(20)
Goodwill	319,285	319,873	(0)
Other intangible assets, net	34,324	36,097	(5)
Other assets	35,418	39,883	(11)
Total assets	\$ 10,442,907	\$ 10,402,532	0
Liabilities and Stockholders' Equity			
Deposits			
Non-interest-bearing demand deposits	\$ 768,419	\$ 785,364	(2)
Interest-bearing deposits:			
NOW deposits	254,198	231,583	10
Money market deposits	712,503	681,783	5
Savings deposits	332,182	331,316	0
Time deposits under \$100,000	1,164,561	1,311,251	(11)
Time deposits of \$100,000 or more	3,056,641	2,937,070	4
Total deposits	6,288,504	6,278,367	0
Federal funds purchased	37,000	41,000	(10)
Securities sold under agreements to repurchase	1,580,162	1,391,025	14
Advances from the Federal Home Loan Bank	1,189,287	1,375,180	(14)
Other borrowings from financial institutions	20,629	8,301	149
Other borrowings for affordable housing investments	19,654	19,642	0

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Long-term debt	171,136	171,136	-
Acceptances outstanding	31,191	53,148	(41)
Minority interest in consolidated subsidiary	8,500	8,500	-
Other liabilities	92,388	84,314	10
Total liabilities	9,438,451	9,430,613	0
Commitments and contingencies	-	-	-
Stockholders' Equity			
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued	-	-	-
Common stock, \$0.01 par value, 100,000,000 shares authorized, 53,589,915 issued and 49,382,350 outstanding at March 31, 2008 and 53,543,752 issued and 49,336,187 outstanding at December 31, 2007	536	535	0
Additional paid-in-capital	483,132	480,557	1
Accumulated other comprehensive loss, net	7,445	(545)	(1,466)
Retained earnings	639,079	617,108	4
Treasury stock, at cost (4,207,565 shares at March 31, 2008 and at December 31, 2007)	(125,736)	(125,736)	-
Total stockholders' equity	1,004,456	971,919	3
Total liabilities and stockholders' equity	\$ 10,442,907	\$ 10,402,532	0

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31,	
	2008	2007
	(In thousands, except share and per share data)	
INTEREST AND DIVIDEND INCOME		
Loan receivable, including loan fees	\$ 117,025	\$ 114,179
Securities available-for-sale - taxable	28,506	21,815
Securities available-for-sale - nontaxable	366	599
Federal Home Loan Bank stock	753	509
Agency preferred stock	716	164
Federal funds sold and securities purchased under agreements to resell	6,480	3,802
Deposits with banks	454	786
Total interest and dividend income	154,300	141,854
INTEREST EXPENSE		
Time deposits of \$100,000 or more	31,868	31,152
Other deposits	17,235	17,987
Securities sold under agreements to repurchase	14,625	5,717
Advances from Federal Home Loan Bank	12,121	11,781
Long-term debt	2,849	1,976
Short-term borrowings	412	489
Total interest expense	79,110	69,102
Net interest income before provision for credit losses	75,190	72,752
Provision for credit losses	7,500	1,000
Net interest income after provision for credit losses	67,690	71,752
NON-INTEREST INCOME		
Securities gains, net	-	191
Letters of credit commissions	1,440	1,292
Depository service fees	1,272	1,346
Other operating income	3,812	3,055
Total non-interest income	6,524	5,884
NON-INTEREST EXPENSE		
Salaries and employee benefits	17,859	16,977
Occupancy expense	3,283	2,768
Computer and equipment expense	2,244	2,225
Professional services expense	2,385	1,728
FDIC and State assessments	291	259
Marketing expense	1,017	901
Other real estate owned (income) expense	(17)	244
Operations of affordable housing investments, net	825	944

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Amortization of core deposit intangibles	1,752	1,765
Other operating expense	2,317	2,418
Total non-interest expense	31,956	30,229
Income before income tax expense	42,258	47,407
Income tax expense	14,959	17,441
Net income	27,299	29,966
Other comprehensive gain, net of tax		
Unrealized holding gains arising during the period	8,154	4,500
Less: reclassification adjustments included in net income	164	(183)
Total other comprehensive gain, net of tax	7,990	4,683
Total comprehensive income	\$ 35,289	\$ 34,649
Net income per common share:		
Basic	\$ 0.55	\$ 0.58
Diluted	\$ 0.55	\$ 0.57
Cash dividends paid per common share	\$ 0.105	\$ 0.090
Basic average common shares outstanding	49,346,285	51,684,754
Diluted average common shares outstanding	49,531,531	52,295,229

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31	
	2008	2007
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$ 27,299	\$ 29,966
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	7,500	1,000
Provision for losses on other real estate owned	-	210
Deferred tax liability	1,628	3,411
Depreciation	1,075	1,091
Net gains on sale of other real estate owned	-	(7)
Net gains on sale of loans	(51)	(61)
Proceeds from sale of loans	1,165	888
Originations of loans held for sale	(1,105)	(813)
Write-downs on venture capital investments	-	418
Gain on sales and calls of securities	-	(183)
Decrease in fair value of warrants	13	28
Other non-cash interest	8	117
Amortization of security premiums, net	241	569
Amortization of other intangible assets	1,790	1,797
Excess tax short-fall (benefit) from share-based payment arrangements	226	(420)
Stock based compensation expense	1,830	2,033
Gain on sale of premises and equipment	-	24
Increase/(decrease) in accrued interest receivable	10,835	(5,067)
Decrease in other assets, net	9,993	676
(Decrease)/increase in other liabilities	(2,113)	8,985
Net cash provided by operating activities	60,334	44,662
Cash Flows from Investing Activities		
(Increase)/decrease in short-term investment	(1,392)	854
Decrease/(increase) in long-term investment	50,000	(50,000)
Decrease/(increase) in securities purchased under agreements to resell	211,100	(150,000)
Purchase of investment securities available-for-sale	(626,393)	(559,976)
Proceeds from maturity and call of investment securities available-for-sale	582,795	121,038
Proceeds from sale of investment securities available-for-sale	-	86,175
Purchase of mortgage-backed securities available-for-sale	(128,389)	-
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	81,650	36,798
Purchase of Federal Home Loan Bank stock	-	(15,248)
Net increase in loans	(241,086)	(112,624)
Purchase of premises and equipment	(4,709)	(3,111)
Proceeds from sales of premises and equipment	-	10
Proceeds from sale of other real estate owned	-	918

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Net increase in investment in affordable housing	(4,450)	(3,581)
Acquisition, net of cash acquired	-	(3,655)
Net cash used in investing activities	(80,874)	(652,402)
Cash Flows from Financing Activities		
Net increase/(decrease) in demand deposits, NOW accounts, money market and saving deposits	37,257	(8,177)
Net (decrease)/increase in time deposits	(27,120)	3,445
Net increase in federal funds purchased and securities sold under agreement to repurchase	185,137	301,300
Advances from Federal Home Loan Bank	1,111,107	1,108,000
Repayment of Federal Home Loan Bank borrowings	(1,297,000)	(848,000)
Cash dividends	(5,181)	(4,676)
Issuance of long-term debt	-	45,000
Proceeds from other borrowings	20,629	-
Repayment of other borrowings	(8,301)	-
Proceeds from shares issued to Dividend Reinvestment Plan	616	576
Proceeds from exercise of stock options	356	1,031
Excess tax (short-fall) benefits from share-based payment arrangements	(226)	420
Purchase of treasury stock	-	(26,874)
Net cash provided by financing activities	17,274	572,045
Decrease in cash and cash equivalents	(3,266)	(35,695)
Cash and cash equivalents, beginning of the period	118,437	132,798
Cash and cash equivalents, end of the year	\$ 115,171	\$ 97,103
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	\$ 352,878	\$ 68,683
Income taxes	\$ 5,691	\$ 3,462
Non-cash investing and financing activities:		
Net change in unrealized holding gains (loss) on securities available-for-sale, net of tax	\$ 7,990	\$ 4,683
Adjustment to initially apply FASB Interpretation 48	\$ -	\$ (8,524)
Adjustment to initially apply EITF 06-4	\$ (147)	
Transfers to other real estate owned	\$ 262	\$ 373

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp (the “Bancorp”) is the holding company for Cathay Bank (the “Bank”), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of March 31, 2008, the Bank operates twenty one branches in Southern California, ten branches in Northern California, nine branches in New York State, three branches in Illinois, three branches in Washington State, two branches Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the “FDIC”).

2. Acquisitions and Investments

We continue to look for opportunities to expand the Bank’s branch network by seeking new branch locations and/or by acquiring other financial institutions to diversify our customer base in order to compete for new deposits and loans, and to be able to serve our customers more effectively. At the close of business on March 30, 2007, the Company completed the acquisition of New Jersey-based United Heritage Bank (“UHB”) for cash of \$9.4 million. As of March 30, 2007, UHB had \$58.9 million in assets and \$4.3 million in stockholders’ equity.

The acquisition was accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations.” The assets acquired and liabilities assumed were recorded by the Company at their fair values as of March 31, 2007:

	United Heritage Bank (In thousands)
Assets acquired:	
Cash and cash equivalents	\$ 5,745
Securities available-for-sale	14,305
Loans, net	38,036
Premises and equipment, net	432
Goodwill	3,575
Core deposit intangible	410
Other assets	2,161
Total assets acquired	64,664
Liabilities assumed:	
Deposits	54,166
Accrued interest payable	9
Other liabilities	1,089
Total liabilities assumed	55,264
Net assets acquired	\$ 9,400
Cash paid	\$ 9,400

No loans acquired as part of the acquisition of UHB were determined to be impaired and therefore no loans were within the scope of Statement of Position (SOP) 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer". In addition, the estimated other costs related to the acquisition were recorded as a liability at closing when allocating the related purchase price. The purchase price allocation is still preliminary and subject to final determination and valuation of the fair value of assets acquired and liabilities assumed.

For each acquisition, we developed an integration plan for the consolidated company that addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The established plans are evaluated regularly during the integration process and modified as required. Merger and integration expenses are summarized in the following primary categories: (i) severance and employee-related charges; (ii) system conversion and integration costs, including contract termination charges; (iii) asset write-downs, lease termination costs for abandoned space and other facilities-related costs; and (iv) other charges. Other charges include investment banking fees, legal fees, other professional fees relating to due diligence activities and expenses associated with preparation of securities filings, as appropriate. These costs were included in the allocation of the purchase price at the acquisition date based on our formal integration plans.

As of March 31, 2008, goodwill was \$319.3 million, a decrease of \$588,000 compared to December 31, 2007 due to a reversal of accrued penalties of \$528,000 as a result of the settlement with the California Franchise Board for a claim related to GBC Bancorp's 2001 California tax return and a tax refund of \$60,000 related to New Asia Bancorp's 2006 tax year. Merger-related lease liability was \$557,000 as of March 31, 2008, with cash outlays of \$49,000 for the three months ended March 31, 2008.

3. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair present