

CATHAY GENERAL BANCORP
Form 10-Q
August 11, 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 June 30, 2008

OR

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

For the transition
period from
Commission file
number

to

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"

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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, 49,472,308 shares outstanding as of July 31, 2008.

1

**CATHAY GENERAL BANCORP AND SUBSIDIARIES
2ND QUARTER 2008 REPORT ON FORM 10-Q
TABLE OF CONTENTS**

PART I – FINANCIAL INFORMATION	4
Item 1. FINANCIAL STATEMENTS (Unaudited)	4
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)	7
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	21
Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	46
Item 4. CONTROLS AND PROCEDURES	47
PART II - OTHER INFORMATION	47
Item 1. LEGAL PROCEEDINGS	47
Item 1A. RISK FACTORS	47
Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	49
Item 3. DEFAULTS UPON SENIOR SECURITIES	49
Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	49
Item 5. OTHER INFORMATION	50
Item 6. EXHIBITS	50
SIGNATURES	52

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:

- the impact of any goodwill impairment that may be determined;
- 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)**

	June 30, 2008	December 31, 2007	% change
	(In thousands, except share and per share data)		
Assets			
Cash and due from banks	\$ 114,270	\$ 118,437	(4)
Short-term investments	6,408	2,278	181
Securities purchased under agreements to resell	150,000	516,100	(71)
Long-term certificates of deposit	-	50,000	(100)
Securities available-for-sale (amortized cost of \$2,566,135 in 2008 and \$2,348,606 in 2007)	2,533,353	2,347,665	8
Trading securities	75	5,225	(99)
Loans	7,327,724	6,683,645	10
Less: Allowance for loan losses	(84,856)	(64,983)	31
Unamortized deferred loan fees, net	(10,165)	(10,583)	(4)
Loans, net	7,232,703	6,608,079	9
Federal Home Loan Bank stock	65,825	65,720	0
Other real estate owned, net	29,077	16,147	80
Affordable housing investments, net	103,795	94,000	10
Premises and equipment, net	88,699	76,848	15
Customers' liability on acceptances	30,988	53,148	(42)
Accrued interest receivable	45,984	53,032	(13)
Goodwill	319,285	319,873	(0)
Other intangible assets, net	32,588	36,097	(10)
Other assets	58,865	39,883	48
Total assets	\$ 10,811,915	\$ 10,402,532	4
Liabilities and Stockholders' Equity			
Deposits			
Non-interest-bearing demand deposits	\$ 818,776	\$ 785,364	4
Interest-bearing deposits:			
NOW deposits	261,005	231,583	13
Money market deposits	732,410	681,783	7
Savings deposits	334,328	331,316	1
Time deposits under \$100,000	1,424,692	1,311,251	9
Time deposits of \$100,000 or more	3,170,831	2,937,070	8
Total deposits	6,742,042	6,278,367	7

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

Federal funds purchased	81,000	41,000	98
Securities sold under agreements to repurchase	1,550,000	1,391,025	11
Advances from the Federal Home Loan Bank	1,116,713	1,375,180	(19)
Other borrowings from financial institutions	10,000	8,301	20
Other borrowings for affordable housing investments	19,577	19,642	(0)
Long-term debt	171,136	171,136	-
Acceptances outstanding	30,988	53,148	(42)
Minority interest in consolidated subsidiary	8,500	8,500	-
Other liabilities	87,270	84,314	4
Total liabilities	9,817,226	9,430,613	4
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, 53,626,663 issued and 49,419,098 outstanding at June 30, 2008 and 53,543,752 issued and 49,336,187 outstanding at December 31, 2007	536	535	0
Additional paid-in-capital	485,762	480,557	1
Accumulated other comprehensive loss, net	(18,998)	(545)	3,386
Retained earnings	653,125	617,108	6
Treasury stock, at cost (4,207,565 shares at June 30, 2008 and at December 31, 2007)	(125,736)	(125,736)	-
Total stockholders' equity	994,689	971,919	2
Total liabilities and stockholders' equity	\$ 10,811,915	\$ 10,402,532	4

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

Three months ended June 30, Six months ended June 30,
2008 2007 2008 2007
(In thousands, except share and per share
data)

**INTEREST AND
DIVIDEND INCOME**

Loan receivable, including loan fees	\$ 110,850	\$ 118,737	\$ 227,875	\$ 232,916
Investment securities- taxable	28,426	24,439	56,932	46,254
Investment securities- nontaxable	324	583	690	1,182
Federal Home Loan Bank stock	928	541	1,681	1,050
Agency preferred stock	592	174	1,308	338
Federal funds sold and securities purchased under agreements to resell	2,915	3,965	9,395	7,767
Deposits with banks	27	1,254	481	2,040
Total interest and dividend income	144,062	149,693	298,362	291,547

**INTEREST
EXPENSE**

Time deposits of \$100,000 or more	28,304	31,900	60,172	63,052
Other deposits	15,184	18,684	32,419	36,671
Securities sold under agreements to repurchase	14,917	7,544	29,542	13,261
Advances from Federal Home Loan Bank	11,323	11,677	23,444	23,458
Long-term debt	2,010	2,899	4,859	4,875
Short-term borrowings	210	492	622	981
Total interest expense	71,948	73,196	151,058	142,298
Net interest income before provision for credit losses	72,114	76,497	147,304	149,249
Provision for credit losses	20,500	2,100	28,000	3,100
	51,614	74,397	119,304	146,149

Net interest income after provision for credit losses				
NON-INTEREST INCOME				
Securities gains, net	2,333	-	2,333	191
Letters of credit commissions	1,376	1,435	2,816	2,727
Depository service fees	1,175	1,037	2,447	2,383
Other operating income	4,291	3,690	8,103	6,745
Total non-interest income	9,175	6,162	15,699	12,046
NON-INTEREST EXPENSE				
Salaries and employee benefits	16,408	16,886	34,267	33,863
Occupancy expense	3,242	3,107	6,525	5,876
Computer and equipment expense	1,932	2,553	4,176	4,777
Professional services expense	3,095	2,543	5,480	4,271
FDIC and State assessments	1,545	261	1,836	520
Marketing expense	848	904	1,865	1,805
Other real estate owned expense	641	17	624	261
Operations of affordable housing investments, net	1,696	1,444	2,521	2,388
Amortization of core deposit intangibles	1,722	1,767	3,474	3,531
Other operating expense	2,625	2,803	4,942	5,222
Total non-interest expense	33,754	32,285	65,710	62,514
Income before income tax expense	27,035	48,274	69,293	95,681
Income tax expense	7,804	17,693	22,763	35,134
Net income	19,231	30,581	46,530	60,547
Other comprehensive loss, net of tax				
Unrealized holding losses arising during the period	(20,427)	(8,111)	(12,273)	(3,611)
Less: reclassification adjustments included in	6,016	(18)	6,180	(201)

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

net income							
Total other comprehensive loss, net of tax		(26,443)		(8,093)		(18,453)	(3,410)
Total comprehensive (loss)/income	\$	(7,212)	\$	22,488	\$	28,077	\$ 57,137
Net income per common share:							
Basic	\$	0.39	\$	0.60	\$	0.94	\$ 1.18
Diluted	\$	0.39	\$	0.60	\$	0.94	\$ 1.17
Cash dividends paid per common share							
	\$	0.105	\$	0.105	\$	0.210	\$ 0.195
Basic average common shares outstanding		49,389,522		50,558,218		49,367,903	51,118,374
Diluted average common shares outstanding		49,429,348		51,158,029		49,480,439	51,723,487

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

5

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

	Six Months Ended June 30	
	2008	2007
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$ 46,530	\$ 60,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	28,000	3,100
Provision for losses on other real estate owned	-	210
Deferred tax (benefit) liabilities	(10,632)	1,182
Depreciation	2,139	2,150
Net gains on sale of other real estate owned	-	(29)
Net gains on sale of loans held for sale	(87)	(65)
Proceeds from sale of loans held for sale	1,919	934
Originations of loans held for sale	(1,814)	(855)
Purchase of trading securities	-	(5,000)
Write-downs on venture capital investments	-	268
Write-downs on impaired securities	5,830	-
Gain on sales and calls of securities	(8,163)	(191)
Decrease in fair value of warrants	26	41
Other non-cash interest	1	147
Amortization of security premiums, net	841	944
Amortization of intangibles	3,538	3,594
Excess tax short-fall / (benefit) from share-based payment arrangements	237	(450)
Stock based compensation expense	3,838	3,791
Gain on sale of premises and equipment	(21)	(9)
Decrease / (Increase) in accrued interest receivable	7,047	(12,460)
(Increase) /decrease in other assets, net	(2,517)	6,356
Increase in other liabilities	8,315	11,896
Net cash provided by operating activities	85,027	76,101
Cash Flows from Investing Activities		
Increase in short-term investments	(4,130)	(8,648)
Decrease / (Increase) in long-term investment	50,000	(50,000)
Decrease/ (Increase) in securities purchased under agreements to resell	366,100	(204,000)
Purchase of investment securities available-for-sale	(1,503,846)	(559,976)
Proceeds from maturity and call of investment securities available-for-sale	757,496	219,204
Proceeds from sale of investment securities available-for-sale	59,756	86,187
Purchase of mortgage-backed securities available-for-sale	(337,007)	-
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	807,564	73,359
Purchase of Federal Home Loan Bank stock	-	(15,248)
Redemption of Federal Home Loan Bank stock	1,575	326
Net increase in loans	(665,174)	(387,899)
Purchase of premises and equipment	(12,179)	(4,705)
Proceeds from sales of premises and equipment	21	608

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

Proceeds from sale of other real estate owned	-	1,717
Net increase in investment in affordable housing	(6,254)	(4,488)
Acquisition, net of cash acquired	-	(3,655)
Net cash used in investing activities	(486,078)	(857,218)
Cash Flows from Financing Activities		
Net increase in demand deposits, NOW accounts, money market and saving deposits	116,473	136
Net increase in time deposits	347,202	112,431
Net increase in federal funds purchased and securities sold under agreement to repurchase	198,975	468,102
Advances from Federal Home Loan Bank	1,823,533	1,863,000
Repayment of Federal Home Loan Bank borrowings	(2,082,000)	(1,678,000)
Cash dividends	(10,366)	(10,047)
Issuance of long-term debt	-	65,000
Proceeds from other borrowings	20,629	19,000
Repayment of other borrowings	(18,930)	(10,000)
Proceeds from shares issued to Dividend Reinvestment Plan	1,249	1,228
Proceeds from exercise of stock options	356	1,341
Excess tax (short-fall)/benefits from share-based payment arrangements	(237)	450
Purchases of treasury stock	-	(71,508)
Net cash provided by financing activities	396,884	761,133
Decrease in cash and cash equivalents	(4,167)	(19,984)
Cash and cash equivalents, beginning of the period	118,437	132,798
Cash and cash equivalents, end of the year	\$ 114,270	\$ 112,814
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	\$ 159,352	\$ 134,909
Income taxes	\$ 35,229	\$ 27,375
Non-cash investing and financing activities:		
Net change in unrealized holding loss on securities available-for-sale, net of tax	\$ (18,453)	\$ (3,410)
Cumulative effect adjustment as result of adoption of FASB Interpretation No. 48		
Adjustment to initially apply FASB Interpretation 48	\$ -	\$ (8,524)
Adjustment to initially apply EITF 06-4	\$ (147)	
Transfers to other real estate owned	\$ 12,560	\$ 373
Loans to facilitate the sale of other real estate owned	\$ -	\$ 3,360
Loans to facilitate the sale of fixed assets	\$ -	\$ 1,940

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 June 30, 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.

7

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.