

EAST WEST BANCORP INC
Form 10-Q
August 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

ý

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

For the quarterly period ended June 30, 2006

or

o

**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 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4703316
(I.R.S. Employer
Identification No.)

135 N. Los Robles Ave, 7th Floor, Pasadena, California 91101
(Address of principal executive offices) (Zip Code)

(626) 768-6000
(Registrant's telephone number, including area code)

Edgar Filing: EAST WEST BANCORP INC - Form 10-Q

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

Number of shares outstanding of the issuer's common stock on the latest practicable date: 60,946,788 shares of common stock as of July 31, 2006.

TABLE OF CONTENTS

| | | |
|--|--|----|
| <u>PART I - FINANCIAL INFORMATION</u> | | 4 |
| <u>Item 1.</u> | <u>Condensed Consolidated Financial Statements (Unaudited)</u> | 4 |
| | <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | 8 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 21 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 50 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 50 |
| <u>PART II - OTHER INFORMATION</u> | | 51 |
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 51 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 51 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 51 |
| <u>Item 3.</u> | <u>Defaults upon Senior Securities</u> | 51 |
| <u>Item 4.</u> | <u>Submission of Matters to a Vote of Security Holders</u> | 51 |
| <u>Item 5.</u> | <u>Other Information</u> | 52 |
| <u>Item 6.</u> | <u>Exhibits</u> | 52 |
| <u>SIGNATURE</u> | | 53 |

Forward-Looking Statements

Certain matters discussed in this report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance. The Company's actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. For discussion of some of the factors that might cause such differences, see the Company's Form 10-K under the heading "Item 1A. Risk Factors." The Company does not undertake, and specifically disclaims any obligation to update any forward looking statements to reflect the occurrence of events or circumstances after the date of such statements.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

*(In thousands, except share data)**(Unaudited)*

| | June 30, 2006 | December 31, 2005 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 137,309 | \$ 151,192 |
| Interest-bearing deposits in other banks | 663 | |
| Securities purchased under resale agreements | 100,000 | 50,000 |
| Investment securities available-for-sale, at fair value (with amortized cost of \$1,371,882 in 2006 and \$873,969 in 2005) | 1,353,386 | 869,837 |
| Loans receivable, net of allowance for loan losses of \$75,847 in 2006 and \$68,635 in 2005 | 7,793,273 | 6,724,320 |
| Investment in Federal Home Loan Bank stock, at cost | 48,130 | 45,707 |
| Investment in Federal Reserve Bank stock, at cost | 17,200 | 12,285 |
| Other real estate owned, net | 2,786 | 299 |
| Investment in affordable housing partnerships | 28,280 | 31,006 |
| Premises and equipment, net | 43,671 | 38,579 |
| Due from customers on acceptances | 8,355 | 6,074 |
| Premiums on deposits acquired, net | 23,884 | 18,853 |
| Goodwill | 244,351 | 143,254 |
| Cash surrender value of life insurance policies | 86,480 | 82,191 |
| Accrued interest receivable and other assets | 94,959 | 82,073 |
| Deferred tax assets | 35,564 | 22,586 |
| TOTAL | \$ 10,018,291 | \$ 8,278,256 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Customer deposit accounts: | | |
| Noninterest-bearing | \$ 1,400,048 | \$ 1,331,992 |
| Interest-bearing | 5,726,946 | 4,926,595 |
| Total deposits | 7,126,994 | 6,258,587 |
| Federal funds purchased | 104,000 | 91,500 |
| Federal Home Loan Bank advances | 841,918 | 617,682 |
| Securities sold under repurchase agreements | 725,000 | 325,000 |
| Notes payable | 4,646 | 8,833 |
| Bank acceptances outstanding | 8,355 | 6,074 |
| Accrued interest payable, accrued expenses and other liabilities | 85,613 | 83,347 |
| Long-term debt | 184,023 | 153,095 |
| Total liabilities | 9,080,549 | 7,544,118 |

COMMITMENTS AND CONTINGENCIES (Note 7)

STOCKHOLDERS EQUITY

Common stock (par value of \$0.001 per share)

Authorized 200,000,000 shares

Issued 65,785,311 shares in 2006 and 61,419,622 shares in 2005

Edgar Filing: EAST WEST BANCORP INC - Form 10-Q

| | | | |
|--|---|----------------------|---------------------|
| Outstanding | 60,857,655 shares in 2006 and 56,519,438 shares in 2005 | 66 | 61 |
| Additional paid in capital | | 531,132 | 389,004 |
| Retained earnings | | 456,676 | 393,846 |
| Deferred compensation | | | (8,242) |
| Treasury stock, at cost | 4,927,656 shares in 2006 and 4,900,184 shares in 2005 | (38,840) | (37,905) |
| Accumulated other comprehensive loss, net of tax | | (11,292) | (2,626) |
| Total stockholders' equity | | 937,742 | 734,138 |
| TOTAL | | \$ 10,018,291 | \$ 8,278,256 |

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

*(In thousands, except per share data)**(Unaudited)*

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------|---------------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| INTEREST AND DIVIDEND INCOME | | | | |
| Loans receivable, including fees | \$ 143,426 | \$ 87,334 | \$ 269,297 | \$ 166,230 |
| Investment securities available-for-sale | 12,949 | 5,582 | 22,164 | 10,839 |
| Securities purchased under resale agreements | 1,896 | | 3,243 | |
| Investment in Federal Home Loan Bank stock | 646 | 680 | 1,208 | 1,137 |
| Investment in Federal Reserve Bank stock | 218 | 116 | 402 | 220 |
| Short-term investments | 113 | 57 | 236 | 99 |
| Total interest and dividend income | 159,248 | 93,769 | 296,550 | 178,525 |
| INTEREST EXPENSE | | | | |
| Customer deposit accounts | 49,939 | 19,394 | 88,828 | 35,685 |
| Federal Home Loan Bank advances | 8,199 | 7,890 | 16,907 | 13,071 |
| Securities sold under repurchase agreements | 5,005 | | 7,882 | |
| Long-term debt | 3,253 | 1,465 | 5,914 | 2,485 |
| Federal funds purchased | 1,208 | 60 | 2,327 | 102 |
| Total interest expense | 67,604 | 28,809 | 121,858 | 51,343 |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | | | | |
| PROVISION FOR LOAN LOSSES | 91,644 | 64,960 | 174,692 | 127,182 |
| PROVISION FOR LOAN LOSSES | 1,333 | 4,500 | 4,666 | 8,870 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 90,311 | 60,460 | 170,026 | 118,312 |
| NONINTEREST INCOME | | | | |
| Branch fees | 2,890 | 1,692 | 5,429 | 3,285 |
| Letters of credit fees and commissions | 2,159 | 1,967 | 4,331 | 4,504 |
| Ancillary loan fees | 1,131 | 612 | 1,910 | 1,129 |
| Net gain on sales of investment securities available-for-sale | 145 | 1,285 | 1,861 | 1,733 |
| Income from life insurance policies | 916 | 819 | 1,812 | 1,563 |
| Income from secondary market activities | 189 | 992 | 373 | 1,184 |
| Net gain on sale of real estate owned | | | 88 | |
| Other operating income | 689 | 597 | 1,205 | 1,066 |
| Total noninterest income | 8,119 | 7,964 | 17,009 | 14,464 |
| NONINTEREST EXPENSE | | | | |
| Compensation and employee benefits | 15,831 | 12,485 | 32,000 | 25,339 |
| Occupancy and equipment expense | 5,339 | 3,432 | 10,116 | 6,690 |
| Deposit-related expenses | 2,642 | 2,122 | 4,655 | 3,762 |
| Amortization of premiums on deposits acquired | 1,852 | 603 | 3,617 | 1,206 |
| Amortization of investments in affordable housing partnerships | 1,461 | 1,709 | 2,726 | 3,390 |
| Data processing | 1,028 | 654 | 1,788 | 1,223 |
| Deposit insurance premiums and regulatory assessments | 366 | 228 | 682 | 451 |
| Other operating expenses | 10,017 | 7,168 | 19,775 | 14,058 |

Edgar Filing: EAST WEST BANCORP INC - Form 10-Q

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Total noninterest expense | 38,536 | 28,401 | 75,359 | 56,119 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | | | | |
| TAXES | 59,894 | 40,023 | 111,676 | 76,657 |
| PROVISION FOR INCOME TAXES | 23,249 | 14,560 | 42,980 | 27,675 |
| NET INCOME | \$ 36,645 | \$ 25,463 | \$ 68,696 | \$ 48,982 |
| EARNINGS PER SHARE | | | | |
| BASIC | \$ 0.61 | \$ 0.49 | \$ 1.17 | \$ 0.94 |
| DILUTED | \$ 0.59 | \$ 0.47 | \$ 1.15 | \$ 0.91 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | | | | |
| BASIC | 60,270 | 52,338 | 58,538 | 52,291 |
| DILUTED | 61,619 | 53,878 | 59,956 | 53,921 |

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

*(In thousands, except share data)**(Unaudited)*

| | Common Stock | Additional Paid In Capital | Retained Earnings | Deferred Compensation | Treasury Stock | Accumulated Other Comprehensive Loss, Net of Tax | Comprehensive Income | Total Stockholders Equity |
|---|-----------------|----------------------------------|----------------------|--------------------------|-------------------|---|-------------------------|---------------------------------|
| BALANCE, DECEMBER 31, 2004 | \$ 57 | \$ 260,152 | \$ 296,175 | \$ (5,422) | \$ (36,649) | (4) | | \$ 514,309 |
| Comprehensive income | | | | | | | | |
| Net income for the period | | | 48,982 | | | | \$ 48,982 | 48,982 |
| Net unrealized loss on investment securities available-for-sale | | | | | | (1,006) | (1,006) | (1,006) |
| Total comprehensive income | | | | | | | \$ 47,976 | |
| Stock compensation costs | | | | 1,371 | | | | 1,371 |
| Tax benefit from option exercises | | 671 | | | | | | 671 |
| Issuance of 121,951 shares pursuant to various stock plans and agreements | | 2,348 | | | | | | 2,348 |
| Issuance of 93,503 shares under Restricted Stock Plan | 1 | 3,514 | | (3,515) | | | | |
| Cancellation of 19,855 shares due to forfeitures of issued restricted stock | | | | 633 | (633) | | | |
| Dividends paid on common stock | | | (5,259) | | | | | (5,259) |
| BALANCE, JUNE 30, 2005 | \$ 58 | \$ 266,685 | \$ 339,898 | \$ (6,933) | \$ (37,282) | (1,010) | | \$ 561,416 |
| BALANCE, DECEMBER 31, 2005 | \$ 61 | \$ 389,004 | \$ 393,846 | \$ (8,242) | \$ (37,905) | (2,626) | | \$ 734,138 |
| Comprehensive income | | | | | | | | |
| Net income for the period | | | 68,696 | | | | \$ 68,696 | 68,696 |
| Net unrealized loss on investment securities available-for-sale | | | | | | (8,666) | (8,666) | (8,666) |
| Total comprehensive income | | | | | | | \$ 60,030 | |
| Elimination of deferred compensation pursuant to adoption of SFAS No. 123(R) | | (8,242) | | 8,242 | | | | |
| Stock compensation costs | | 2,718 | | | | | | 2,718 |
| Tax benefit from stock option exercises | | 6,945 | | | | | | 6,945 |
| Tax benefit from vested restricted stock | | 543 | | | | | | 543 |
| Issuance of 572,716 shares pursuant to various stock plans and agreements | 1 | 5,279 | | | | | | 5,280 |
| | 4 | 133,845 | | | | | | 133,849 |

Edgar Filing: EAST WEST BANCORP INC - Form 10-Q

| | | | | | | | | | | | | |
|---|-----------|-----------|-----------|----------------|-----------|----------------|-----------|-----------------|-----------|-----------------|-----------|----------------|
| Issuance of 3,647,440 shares pursuant to Standard Bank acquisition | | | | | | | | | | | | |
| Issuance of 2,658 shares to Standard Bank employees | | | 105 | | | | | 105 | | | | |
| Cancellation of 27,472 shares due to forfeitures of issued restricted stock | | | 935 | | (935) | | | | | | | |
| Dividends paid on common stock | | | (5,866) | | | | | (5,866) | | | | |
| BALANCE, JUNE 30, 2006 | \$ | 66 | \$ | 531,132 | \$ | 456,676 | \$ | (38,840) | \$ | (11,292) | \$ | 937,742 |

| | Six Months Ended June 30, | | | |
|--|---------------------------|---------|----|---------|
| | 2006 | 2005 | | |
| | (In thousands) | | | |
| Disclosure of reclassification amounts: | | | | |
| Unrealized holding loss on securities arising during the period, net of tax benefit of \$5,493 in 2006 and \$0 in 2005 | \$ | (7,587) | \$ | (1) |
| Less: Reclassification adjustment for gain included in net income, net of tax expense of \$782 in 2006 and \$728 in 2005 | | (1,079) | | (1,005) |
| Net unrealized loss on securities, net of tax benefit of \$6,275 in 2006 and \$728 in 2005 | \$ | (8,666) | \$ | (1,006) |

See accompanying notes to condensed consolidated financial statements.

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(In thousands)**(Unaudited)*

| | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 68,696 | \$ 48,982 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,720 | 4,804 |
| Stock compensation cost | 2,718 | 1,371 |
| Deferred taxes | (7,331) | (969) |
| Provision for loan losses | 4,666 | 8,870 |
| Net gain on sales of investment securities, loans and other assets | (2,278) | (2,831) |
| Federal Home Loan Bank stock dividends | (1,299) | (922) |
| Originations of loans held for sale | (10,587) | (76,590) |
| Proceeds from sale of loans held for sale | 10,593 | 77,531 |
| Tax benefit from stock option exercises | (6,945) | 671 |
| Tax benefit from vested restricted stock | (543) | |
| Net change in accrued interest receivable and other assets | (17,103) | (19,999) |
| Net change in accrued interest payable, accrued expenses, and other liabilities | 13,053 | 7,523 |
| Total adjustments | (9,336) | (541) |
| Net cash provided by operating activities | 59,360 | 48,441 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net loan originations | (925,738) | (595,535) |
| Purchases of: | | |
| Securities purchased under resale agreement | (50,000) | |
| Investment securities available-for-sale | (982,533) | (128,638) |
| Loans receivable | | (1,988) |
| Federal Home Loan Bank stock | (11,823) | (13,440) |
| Federal Reserve Bank stock | (4,915) | (1,050) |
| Investments in affordable housing partnerships | | (12) |
| Premises and equipment | (4,720) | (1,836) |
| Proceeds from unsettled securities acquired | 225,616 | |
| Proceeds from sale of: | | |
| Investment securities available-for-sale | 116,587 | 63,489 |
| Loans receivable | 4,526 | |
| Premises and equipment | 41 | 1 |
| Other real estate owned | 387 | |
| Maturity of interest-bearing deposits in other banks | 396 | 100 |
| Repayments, maturity and redemption of investment securities available-for-sale | 704,118 | 41,396 |
| Redemption of Federal Home Loan Bank stock | 17,837 | |
| Cash obtained from acquisitions, net of cash paid | 98,351 | |
| Net cash used in investing activities | (811,870) | (637,513) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in deposits | 139,413 | 561,842 |