

CATHAY GENERAL BANCORP  
Form 10-Q  
November 09, 2010  
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**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 September 30, 2010

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)

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<b>Delaware</b> (State of other jurisdiction of incorporation or organization)	<b>95-4274680</b> (I.R.S. Employer Identification No.)
<b>777 North Broadway, Los Angeles, California</b> (Address of principal executive offices)	<b>90012</b> (Zip Code)
<b>Registrant's telephone number, including area code: (213) 625-4700</b>	
(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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer, and smaller reporting company 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, 78,526,059 shares outstanding as of October 29, 2010.

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**CATHAY GENERAL BANCORP AND SUBSIDIARIES**

**3RD QUARTER 2010 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. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as "aims," "anticipates," "believes," "could," "estimates," "expects," "hopes," "intends," "may," "plans," "projects," "seeks," "predicts," "potential," "continue," and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

U.S. and international economic and market conditions;

market disruption and volatility;

current and potential future supervisory action by bank supervisory authorities and changes in laws and regulations, or their interpretations;

restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;

credit losses and deterioration in asset or credit quality;

availability of capital;

potential goodwill impairment;

liquidity risk;

fluctuations in interest rates;

past and future acquisitions;

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inflation and deflation;

success of expansion, if any, of our business in new markets;

the soundness of other financial institutions;

real estate market conditions;

our ability to compete with competitors;

increased costs of compliance and other risks associated with changes in regulation and the current regulatory environment, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), the potential for substantial changes in the legal, regulatory, and enforcement framework and oversight applicable to financial institutions in reaction to recent adverse financial market events, including changes pursuant to the Dodd-Frank Act;

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the short term and long term impact of the Basel II and the proposed Basel III capital standards;

our ability to retain key personnel;

successful management of reputational risk;

natural disasters and geopolitical events;

general economic or business conditions in California, Asia, and other regions where the Bank has operations;

restrictions on compensation paid to our executives as a result of our participation in the TARP Capital Purchase Program;

our ability to adapt to our information technology systems; and

changes in accounting standards or tax laws and regulations.

These and other factors are further described in Cathay General Bancorp's Annual Report on Form 10-K for the year ended December 31, 2009 (Item 1A in particular), other reports and registration statements filed with the Securities and Exchange Commission (SEC), and other filings it makes 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, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. Cathay General Bancorp has no intention and undertakes no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

Cathay General Bancorp's filings with the SEC are available at the website maintained by the SEC at <http://www.sec.gov>, or by request directed to Cathay General Bancorp, 9650 Flair Drive, El Monte, California 91731, Attention: Investor Relations (626) 279-3286.

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)****CATHAY GENERAL BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	September 30, 2010	December 31, 2009
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Cash and due from banks	\$ 74,524	\$ 100,124
Short-term investments and interest bearing deposits	248,555	254,726
Securities held-to-maturity (market value of \$618,371 in 2010 \$628,908 in 2009)	603,467	635,015
Securities available-for-sale (amortized cost of \$2,719,555 in 2010 and \$2,916,491 in 2009)	2,761,515	2,915,099
Trading securities	24	18
Loans held for sale	6,164	54,826
Loans	6,907,395	6,899,142
Less: Allowance for loan losses	(257,706)	(211,889)
Unamortized deferred loan fees	(7,740)	(8,339)
Loans, net	6,641,949	6,678,914
Federal Home Loan Bank stock	66,508	71,791
Other real estate owned, net	79,957	71,014
Investments in affordable housing partnerships, net	90,820	95,853
Premises and equipment, net	108,826	108,635
Customers liability on acceptances	17,129	26,554
Accrued interest receivable	33,673	35,982
Goodwill	316,340	316,340
Other intangible assets	18,590	23,157
Other assets	185,141	200,184
<b>Total assets</b>	<b>\$ 11,253,182</b>	<b>\$ 11,588,232</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Deposits</b>		
Non-interest-bearing demand deposits	\$ 928,970	\$ 864,551
<b>Interest-bearing accounts:</b>		
NOW accounts	409,109	337,304
Money market accounts	974,572	943,164
Saving accounts	375,640	347,724
Time deposits under \$100,000	1,150,633	1,529,954
Time deposits of \$100,000 or more	3,268,831	3,482,343
<b>Total deposits</b>	<b>7,107,755</b>	<b>7,505,040</b>
Securities sold under agreements to repurchase	1,566,000	1,557,000
Advances from the Federal Home Loan Bank	864,362	929,362

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Other borrowings from financial institutions	8,351	7,212
Other borrowings for affordable housing investments	19,150	19,320
Long-term debt	171,136	171,136
Acceptances outstanding	17,129	26,554
Other liabilities	52,457	59,864
<b>Total liabilities</b>	<b>9,806,340</b>	<b>10,275,488</b>
Commitments and contingencies		
Stockholders' equity		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding in 2010 and in 2009	246,578	243,967
Common stock, \$0.01 par value; 100,000,000 shares authorized, 82,733,469 issued and 78,525,904 outstanding at September 30, 2010, and 67,667,155 issued and 63,459,590 outstanding at December 31, 2009	827	677
Additional paid-in-capital	761,954	634,623
Accumulated other comprehensive income/(loss), net	24,318	(875)
Retained earnings	530,401	551,588
Treasury stock, at cost (4,207,565 shares at September 30, 2010, and at December 31, 2009)	(125,736)	(125,736)
<b>Total Cathay General Bancorp stockholders' equity</b>	<b>1,438,342</b>	<b>1,304,244</b>
Noncontrolling Interest	8,500	8,500
<b>Total equity</b>	<b>1,446,842</b>	<b>1,312,744</b>
<b>Total liabilities and equity</b>	<b>\$ 11,253,182</b>	<b>\$ 11,588,232</b>

See accompanying notes to unaudited condensed consolidated financial statements



**Table of Contents****CATHAY GENERAL BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)****(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>(In thousands, except share and per share data)</b>				
<b>INTEREST AND DIVIDEND INCOME</b>				
Loan receivable, including loan fees	\$ 95,255	\$ 99,588	\$ 286,077	\$ 302,232
Investment securities- taxable	24,749	31,589	83,788	94,104
Investment securities- nontaxable	19	167	195	620
Federal Home Loan Bank stock	77	149	171	149
Federal funds sold and securities purchased under agreements to resell		35		1,338
Deposits with banks	406	119	1,031	250
Total interest and dividend income	120,506	131,647	371,262	398,693
<b>INTEREST EXPENSE</b>				
Time deposits of \$100,000 or more	12,754	20,224	42,418	65,337
Other deposits	6,603	10,622	23,689	40,196
Securities sold under agreements to repurchase	16,667	16,555	49,469	48,527
Advances from Federal Home Loan Bank	10,090	10,664	30,110	31,781
Long-term debt	1,046	1,067	2,902	3,891
Short-term borrowings	5		5	24
Total interest expense	47,165	59,132	148,593	189,756
Net interest income before provision for credit losses	73,341	72,515	222,669	208,937
Provision for credit losses	17,900	76,000	146,900	216,000
Net interest income/(loss) after provision for credit losses	55,441	(3,485)	75,769	(7,063)
<b>NON-INTEREST INCOME</b>				
Securities gains, net	484	2,883	9,112	52,319
Letters of credit commissions	1,253	1,150	3,280	3,159
Depository service fees	1,277	1,272	3,870	3,940
Other operating (loss)/income	872	4,982	(180)	10,964
Total non-interest income	3,886	10,287	16,082	70,382
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	14,436	14,410	44,445	46,369
Occupancy expense	2,801	3,999	10,432	12,126
Computer and equipment expense	2,011	2,052	6,132	5,938
Professional services expense	4,460	3,694	14,099	10,021

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FDIC and State assessments	4,599	4,464	15,527	15,372
Marketing expense	749	669	2,469	2,153
Other real estate owned expense, net	453	4,135	5,346	20,150
Operations of affordable housing investments , net	1,166	1,407	5,391	5,255
Amortization of core deposit intangibles	1,484	1,689	4,476	5,089
Other operating expense	2,722	2,288	11,046	7,863
<b>Total non-interest expense</b>	<b>34,881</b>	<b>38,807</b>	<b>119,363</b>	<b>130,336</b>
Income/(loss) before income tax expense/(benefit)	24,446	(32,005)	(27,512)	(67,017)
Income tax expense/(benefit)	7,023	(14,482)	(21,418)	(35,362)
Net income/(loss)	17,423	(17,523)	(6,094)	(31,655)
Less: net income attributable to noncontrolling interest	(151)	(156)	(452)	(457)
Net income/(loss) attributable to Cathay General Bancorp	17,272	(17,679)	(6,546)	(32,112)
Dividends on preferred stock	(4,098)	(4,086)	(12,286)	(12,249)
Net income/(loss) attributable to common stockholders	13,174	(21,765)	(18,832)	(44,361)
<b>Other comprehensive income (loss) , net of tax</b>				
Unrealized holding gain/(loss) arising during the period	290	29,233	29,024	15,109
Less: reclassification adjustments included in net income	203	1,212	3,831	21,995
Total other comprehensive gain/(loss), net of tax	87	28,021	25,193	(6,886)
<b>Total comprehensive income/(loss) attributable to Cathay General Bancorp</b>	<b>\$ 17,359</b>	<b>\$ 10,342</b>	<b>\$ 18,647</b>	<b>\$ (38,998)</b>
Net income/(loss) per common share:				
Basic	\$ 0.17	\$ (0.43)	\$ (0.25)	\$ (0.89)
Diluted	\$ 0.17	\$ (0.43)	\$ (0.25)	\$ (0.89)
Cash dividends paid per common share	\$ 0.010	\$ 0.010	\$ 0.030	\$ 0.195
Basic average common shares outstanding	78,520,612	50,183,296	76,584,138	49,758,833
Diluted average common shares outstanding	78,520,612	50,183,296	76,584,138	49,758,833

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****CATHAY GENERAL BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Nine Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (6,094)	\$ (31,655)
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision for loan losses	146,900	216,000
Provision for losses on other real estate owned	8,062	18,050
Deferred tax benefit	(14,713)	(42,630)
Depreciation	4,753	5,753
Net gains on sale and transfer of other real estate owned	(7,049)	(779)
Net gains on sale of loans held for sale	(149)	(3,949)
Proceeds from sale of loans held for sale	12,681	29,267
Originations of loans held for sale	(7,332)	(5,350)
Write-downs on loans held for sale	3,160	
Write-downs on venture capital investments	392	1,573
Write-downs on impaired securities	492	82
Gain on sales and calls of securities	(9,603)	(52,401)
(Increase)/decrease in fair value of warrants	(17)	47
Other non-cash interest	(562)	
Amortization/accretion of security premiums/discounts, net	4,073	1,699
Amortization of intangibles	4,534	5,134
Excess tax short-fall from share-based payment arrangements	362	195
Stock based compensation expense	2,690	4,123
Decrease in deferred loan fees, net	(599)	
Decrease in accrued interest receivable	2,309	10,144
Decrease in income tax payable		(12,491)
Decrease/(increase) in other assets, net	15,559	(8,067)
Decrease in other liabilities	(5,231)	(19,974)
<b>Net cash provided by operating activities</b>	<b>154,618</b>	<b>114,771</b>
<b>Cash Flows from Investing Activities</b>		
Decrease/(Increase) in short-term investments	6,171	(306,767)
Decrease in securities purchased under agreements to resell		201,000
Purchase of investment securities available-for-sale	(3,047,136)	(1,048,251)
Proceeds from maturity and calls of investment securities available-for-sale	2,272,239	1,036,522
Proceeds from sale of investment securities available-for-sale	65,073	4,989
Purchase of mortgage-backed securities available-for-sale		(2,487,276)
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	913,226	2,321,756
Purchase of investment securities held-to-maturity	(30,541)	(99,858)
Proceeds from maturity, call and prepayment of investment securities held-to-maturity	60,660	
Redemption of Federal Home Loan Bank stock	5,284	
Net (increase)/decrease in loans	(147,884)	118,747
Purchase of premises and equipment	(4,484)	(11,016)
Proceeds from sale of other real estate owned	68,791	25,675

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Net increase in investment in affordable housing	(2,767)	(11,159)
Net cash provided by/(used in) investing activities	158,632	(255,638)

**Cash Flows from Financing Activities**

Net increase in demand deposits, NOW accounts, money market and saving deposits	195,548	505,149
Net (decrease)/increase in time deposits	(592,296)	366,846
Net increase/(decrease) in federal funds purchased and securities sold under agreement to repurchase	9,000	(112,000)
Advances from Federal Home Loan Bank		816,000
Repayment of Federal Home Loan Bank borrowings	(65,000)	(1,336,000)
Cash dividends paid on common stock	(2,355)	(9,657)
Cash dividend paid on preferred stock	(9,675)	(9,675)
Issuance of common stock	124,922	31,390
Proceeds from other borrowings	1,139	17,765
Repayment of other borrowings		(16,452)
Proceeds from shares issued to Dividend Reinvestment Plan	229	1,102
Proceeds from exercise of stock options		13
Excess tax short-fall from share-based payment arrangements	(362)	(195)
Net cash (used in)/ provided by financing activities	(338,850)	254,286
(Decrease)/increase in cash and cash equivalents	(25,600)	113,419
Cash and cash equivalents, beginning of the period	100,124	84,818
Cash and cash equivalents, end of the period	\$ 74,524	\$ 198,237

Supplemental disclosure of cash flow information

Cash paid during the period:

Interest	\$ 154,195	\$ 200,507
Income taxes (refunded)/paid	\$ (3,942)	\$ 24,749
Non-cash investing and financing activities:		
Net change in unrealized holding gain/(loss) on securities available-for-sale, net of tax	\$ 25,193	\$ (6,886)
Adjustment to initially apply SFAS No. 160	\$	\$ 8,500
Transfers to other real estate owned from loans held for investment	\$ 69,727	\$ 87,687
Transfers to other real estate owned from loans held for sale	\$ 20,922	\$
Loans transfers from investment to held for sale	\$ 1,329	\$
Loans to facilitate the sale of other real estate owned	\$ 11,775	\$ 18,335
Loans to facilitate sale of loans held for investment	\$ 2,700	\$
Loans to facilitate sale of loans held for sale	\$ 20,800	\$

See accompanying notes to unaudited condensed consolidated financial statements.

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**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 September 30, 2010, the Bank operates twenty branches in Southern California, eleven branches in Northern California, eight branches in New York State, three branches in Illinois, three branches in Washington State, two branches in 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. 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 presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The preparation of the consolidated financial statements in accordance with GAAP requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The most significant estimates subject to change are the allowance for loan losses, goodwill impairment, and other-than-temporary impairment.

**3. Recent Accounting Pronouncements**

In June 2009, the FASB issued ASC Topic 860, formerly SFAS 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140*. ASC Topic 860 removes the concept of a qualifying special-purpose entity and the provisions for guaranteed mortgage securitizations in earlier FASB pronouncements. A transferor should account for the transfer as a sale only if it transfers an entire financial asset and surrenders control over the entire transferred assets in accordance with the conditions in ASC Topic 860. ASC Topic 860 limits the circumstances in which a financial asset should be derecognized. ASC Topic 860 is effective for annual financial statements covering the first fiscal year ending after November 15, 2009. Adoption of ASC Topic 860 as of January 1, 2010, did not have a material impact on the Company's consolidated financial statements.

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In June 2009, the FASB issued ASC Topic 810, formerly SFAS 167, *Amendments to FASB Interpretation No. 46(R)*. ASC Topic 810 eliminates the quantitative approach previously required under FIN 46(R) for determining whether an entity is a variable interest entity. ASC Topic 810 requires an entity to perform ongoing assessments to determine whether an entity is the primary beneficiary of a variable interest entity. The ongoing assessments identify the power to direct the activities of a variable interest entity, the obligation to absorb losses of the entity and the right to receive benefits from the entity that could potentially be significant to the variable interest entity. ASC Topic 810 is effective for annual financial statements covering the first fiscal year ending after November 15, 2009. Adoption of ASC Topic 810 as of January 1, 2010, did not have a significant impact on the Company's consolidated financial statements.

The FASB issued ASU 2010-06 *Improving Disclosures about Fair Value Measurements* in January 2010 to improve disclosure requirements related to ASC Topic 820. ASU 2010-06 requires an entity to report separately significant transfers in and out of Level 1 and Level 2 fair value measurements and to explain the transfers. It also requires an entity to present separately information about purchases, sales, issuances, and settlements for Level 3 fair value measurements. ASU 2010-06 is effective for fiscal years beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements for Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Adoption of ASU 2010-06 as of January 1, 2010, did not have a significant impact on the Company's consolidated financial statements. The Company does not expect a material impact on its consolidated financial statements from adoption of ASU 2010-06 for the disclosures about purchases, sales, issuances, and settlements for Level 3 fair value measurements after December 15, 2010.

The FASB issued ASU 2010-20 *Disclosure about Credit Quality and the Allowance for Credit Losses* in July 2010 to provide disclosures that facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. An entity should provide disclosures on two levels of disaggregation- portfolio segment and class of financing receivable. The disclosure requirements include, among other things, a roll-forward schedule of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 will be effective for the entity's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for the entity's financial statements that include periods beginning on or after January 1, 2011. The Company does not expect a material impact on its consolidated financial statements from adoption of ASU 2010-20 beginning December 31, 2010.

## **4. Earnings/Loss per Share**

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock and resulted in the issuance of common stock that then shared in earnings. Potential dilution is excluded from computation of diluted per-share amounts when a net loss from operation exists.

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Outstanding stock options with anti-dilutive effect were not included in the computation of diluted earnings per share. The following table sets forth loss per common stock share calculations:

(Dollars in thousands, except share and per share data)	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Net income/(loss) attributable to Cathay General Bancorp	\$ 17,272	(\$ 17,679)	(\$ 6,546)	(\$ 32,112)
Dividends on preferred stock	(4,098)	(4,086)	(12,286)	(12,249)
Net income/(loss) attributable to common stockholders	\$ 13,174	(\$ 21,765)	(\$ 18,832)	(\$ 44,361)
Weighted-average number of common shares outstanding:				
Basic	78,520,612	50,183,296	76,584,138	49,758,833
Diluted effect of weighted-average outstanding common shares equivalents				
Stock Options				
Restricted Stock				
Diluted weighted-average number of common shares outstanding	78,520,612	50,183,296	76,584,138	49,758,833
Average shares of stock options and warrants with anti-dilutive effect	6,911,096	7,077,632	6,946,976	7,029,494
Earnings/(Loss) per common stock share:				
Basic	\$ 0.17	(\$ 0.43)	(\$ 0.25)	(\$ 0.89)
Diluted	\$ 0.17	(\$ 0.43)	(\$ 0.25)	(\$ 0.89)

**5. Stock-Based Compensation**

Under the Company's equity incentive plans, directors and eligible employees may be granted incentive or non-statutory stock options and/or restricted stock units, or awarded non-vested stock. As of September 30, 2010, the only options granted by the Company were non-statutory stock options to selected bank officers and non-employee directors at exercise prices equal to the fair market value of a share of the Company's common stock on the date of grant. Such options have a maximum ten-year term and vest in 20% annual increments (subject to early termination in certain events) except certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. Stock options are typically granted in the first quarter of the year. There were no options granted during 2009 and during the first nine months of 2010.

Stock-based compensation expense for stock options is calculated based on the fair value of the award at the grant date for those options expected to vest, and is recognized as an expense over the vesting period of the grant. The Company uses the Black-Scholes option pricing model to estimate the value of granted options. This model takes into account the option exercise price, the expected life, the current price of the underlying stock, the expected volatility of the Company's stock, expected dividends on the stock and a risk-free interest rate. The Company estimates the expected volatility based on the Company's historical stock prices for the period corresponding to the expected life of the stock options. Based on Staff Accounting Bulletin (SAB) 107 and SAB 110, the Company has estimated the expected life of the options based on the average of the contractual period and the vesting period and has consistently applied the simplified method to all options granted starting from 2005.

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Option compensation expense totaled \$694,000 for the three months ended September 30, 2010, and \$1.2 million for the three months ended September 30, 2009. For the nine months ended September 30, option compensation expense totaled \$2.4 million for 2010 and \$3.9 million for 2009. Stock-based compensation is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled \$2.5 million at September 30, 2010, and is expected to be recognized over the next 1.9 years.

No stock options were exercised during the first nine months of 2010. Cash received totaled \$13,000 and the aggregate intrinsic value totaled \$8,000 from the exercise of stock options on 1,280 shares during the nine months ended September 30, 2009. No options were vested during the third quarter of 2010 and during the third quarter of 2009. The table below summarizes stock option activity for the periods indicated:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2009	5,169,653	\$ 27.71	4.6	\$
Forfeited	(102,232)	\$ 10.75		
Balance at March 31, 2010	5,067,421	\$ 28.05	4.4	\$ 3
Forfeited	(11,119)	33.18		
Balance at June 30, 2010	5,056,302	\$ 28.04	4.2	\$
Forfeited	(65,822)	34.62		
Balance at September 30, 2010	4,990,480	\$ 27.97	3.9	\$ 6
Exercisable at September 30, 2010	4,512,042	\$ 28.06	3.6	\$ 6

In addition to stock options above, in February 2008, the Company granted restricted stock units on 82,291 shares of the Company's common stock to its eligible employees. On the date of granting these restricted stock units, the closing price of the Company's stock was \$23.37 per share. Such restricted stock units have a maximum term of five years and vest in approximately 20% annual increments subject to employees continued employment with the Company. On February 21, 2009, restricted stock units on 15,828 shares were vested at the closing price of \$8.94 per share. Among the 15,828 restricted stock units, 2,865 shares were cancelled immediately for employees who elected to satisfy income tax withholding amounts through cancellation of restricted stock units. As a result, a total of 12,963 shares of the Company's common stock were issued on these restricted stock units as of February 21, 2009. On February 21, 2010 an additional restricted stock units on 15,006 shares were vested and issued at the closing price of \$9.64 per share. The following table presents information relating to the restricted stock units as of September 30, 2010:

	Units
Balance at December 31, 2009	60,021
Vested	(15,006)
Forfeited	(5,622)
Balance at September 30, 2010	39,393

The compensation expense recorded related to the restricted stock units above was \$82,000 for the three months ended September 30, 2010, and for the three months ended September 30, 2009. For the nine months ended September 30, compensation expense recorded was \$245,000 in



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2010 and in 2009. Unrecognized stock-based compensation expense related to restricted stock units was \$790,000 at September 30, 2010, and is expected to be recognized over the next 2.4 years.

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The following table summarizes the tax benefit (short-fall) from share-based payment arrangements:

(Dollars in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Short-fall of tax deductions in excess of grant-date fair value	\$ (263)	\$ (64)	\$ (362)	\$ (195)
Benefit of tax deductions on grant-date fair value	263	64	362	198
<b>Total benefit of tax deductions</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 3</b>

**6. Investment Securities**

The following table reflects the amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of September 30, 2010, and December 31, 2009:

	Amortized Cost	September 30, 2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
<b>Securities Held-to-Maturity</b>				
U.S. government sponsored entities	\$ 99,909	\$ 3,205	\$	\$ 103,114
State and municipal securities	10,576	12	\$ 46	\$ 10,542
Mortgage-backed securities	483,016	11,733		494,749
Other securities-foreign	9,966			9,966
<b>Total securities held-to-maturity</b>	<b>\$ 603,467</b>	<b>\$ 14,950</b>	<b>\$ 46</b>	<b>\$ 618,371</b>
<b>Securities Available-for-Sale</b>				
U.S. government sponsored entities	\$ 1,384,479	\$ 5,285	\$ 310	\$ 1,389,454
Mortgage-backed securities	1,053,176	37,226	66	1,090,336
Collateralized mortgage obligations	28,753	815	111	29,457
Asset-backed securities	251		4	247
Corporate bonds	206,813	1,068	1,705	206,176
Mutual fund	4,000	18		4,018
Preferred stock of government sponsored entities	569			569
Trust Preferred Securities	3,887	35	5	3,917
Other foreign securities	36,530	61	110	36,481
Other equity securities	1,097		237	860
<b>Total securities available-for-sale</b>	<b>\$ 2,719,555</b>	<b>\$ 44,508</b>	<b>\$ 2,548</b>	<b>\$ 2,761,515</b>
<b>Total investment securities</b>	<b>\$ 3,323,022</b>	<b>\$ 59,458</b>	<b>\$ 2,594</b>	<b>\$ 3,379,886</b>

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	Amortized Cost	December 31, 2009 Gross Unrealized		Fair Value
		Gains	Losses	
		(In thousands)		
<b>Securities Held-to-Maturity</b>				
U.S. government sponsored entities	\$ 99,876	\$ 1,187	\$	\$ 101,063
Mortgage-backed securities	535,139		7,294	527,845
Total securities held-to-maturity	\$ 635,015	\$ 1,187	\$ 7,294	\$ 628,908
<b>Securities Available-for-Sale</b>				
U.S. treasury securities	\$ 13,825	\$	\$ 77	\$ 13,748
U.S. government sponsored entities	873,290	1,284	3,230	871,344
State and municipal securities	12,750	109	36	12,823
Mortgage-backed securities	1,939,821	9,730	7,375	1,942,176
Collateralized mortgage obligations	49,161	266	1,638	47,789
Asset-backed securities	312		63	249
Corporate bonds				