

CITY NATIONAL CORP  
Form 10-Q  
August 09, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2004

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 1-10521

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**CITY NATIONAL CORPORATION**

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(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**95-2568550**

(I.R.S. Employer  
Identification No.)

**City National Center**

**400 North Roxbury Drive, Beverly Hills, California**  
(Address of principal executive offices)

**90210**

(Zip Code)

Registrant's telephone number, including area code **(310) 888-6000**

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 an accelerated filer (as defined in Rule 12b-2 of the Act).

YES

NO

Number of shares of common stock outstanding at July 31, 2004: 49,055,585

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## PART 1 - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CITY NATIONAL CORPORATION

## CONSOLIDATED BALANCE SHEET

(Unaudited)

Dollars in thousands, except per share amounts	June 30, 2004	December 31, 2003	June 30, 2003
<b>Assets</b>			
Cash and due from banks	\$ 485,208	\$ 461,443	\$ 451,291
Federal funds sold	595,000	240,000	650,000
Due from banks - interest bearing	76,890	405,747	30,402
Securities available-for-sale - cost \$3,586,185; \$3,350,632 and \$2,935,401 at June 30, 2004, December 31, 2003 and June 30, 2003, respectively	3,518,757	3,365,654	2,992,686
Trading account securities	28,893	91,535	57,633
Loans	8,125,496	7,882,742	7,590,226
Less allowance for credit losses	165,117	165,986	170,927
Net loans	7,960,379	7,716,756	7,419,299
Premises and equipment, net	60,488	62,719	64,966
Deferred tax asset	127,991	65,913	50,488
Goodwill	253,736	253,824	254,627
Intangibles	44,360	47,879	48,597
Bank owned life insurance	64,012	62,799	61,554
Affordable housing investments	65,174	66,480	66,532
Other assets	187,296	171,785	200,613
Customers acceptance liability	5,716	5,708	6,145
Total assets	\$ 13,473,900	\$ 13,018,242	\$ 12,354,833
<b>Liabilities</b>			
Demand deposits	\$ 5,809,241	\$ 5,486,668	\$ 4,916,678
Interest checking deposits	861,987	840,659	689,658
Money market deposits	3,601,658	3,260,959	3,140,203
Savings deposits	199,650	208,701	211,010
Time deposits-under \$100,000	191,250	199,875	210,333
Time deposits-\$100,000 and over	791,133	940,201	998,924
Total deposits	11,454,919	10,937,063	10,166,806
Federal funds purchased and securities sold under repurchase agreements	94,898	111,713	167,084
Other short-term borrowings	50,125	65,135	115,125
Subordinated debt	286,896	295,723	318,282
Long-term debt	224,488	230,555	283,954
Other liabilities	101,869	127,045	126,703
Acceptances outstanding	5,716	5,708	6,145
Total liabilities	12,218,911	11,772,942	11,184,099
Minority interest in consolidated subsidiaries	27,180	26,044	26,044
<b>Commitments and contingencies</b>			

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**Shareholders Equity**

Preferred Stock authorized - 5,000,000 : none outstanding

Common Stock-par value-\$1.00; authorized - 75,000,000;

Issued - 50,578,256; 50,459,716 and 50,455,363 shares at June 30, 2004,

December 31, 2003 and June 30, 2003, respectively	50,578	50,460	50,455
Additional paid-in capital	408,463	401,233	404,741
Accumulated other comprehensive income (loss)	(38,418)	12,903	39,781
Retained earnings	886,367	814,591	745,017
Deferred equity compensation	(13,343)	(6,699)	(7,595)
Treasury shares, at cost - 1,268,452; 1,255,569; and 2,027,574 shares at June 30, 2004, December 31, 2003 and June 30, 2003, respectively	(65,838)	(53,232)	(87,709)
Total shareholders equity	1,227,809	1,219,256	1,144,690
Total liabilities and shareholders equity	\$ 13,473,900	\$ 13,018,242	\$ 12,354,833

See accompanying Notes to the Unaudited Consolidated Financial Statements.

**CITY NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
**(Unaudited)**

In thousands, except per share amounts	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
<b>Interest Income</b>				
Loans	\$ 106,448	\$ 111,176	\$ 212,434	\$ 226,912
Securities available-for-sale	37,486	32,292	74,687	61,723
Federal funds sold and securities purchased under resale agreements	1,116	771	1,548	1,182
Due from bank - interest bearing	92	35	232	84
Trading account	36	59	74	108
<b>Total interest income</b>	<b>145,178</b>	<b>144,333</b>	<b>288,975</b>	<b>290,009</b>
<b>Interest Expense</b>				
Deposits	9,838	12,548	19,590	26,022
Subordinated debt	1,232	1,349	2,449	2,763
Other long-term debt	1,419	2,342	2,858	3,694
Federal funds purchased and securities sold under repurchase agreements	269	414	513	1,039
Other short-term borrowings	145	556	318	1,150
<b>Total interest expense</b>	<b>12,903</b>	<b>17,209</b>	<b>25,728</b>	<b>34,668</b>
<b>Net interest income</b>	<b>132,275</b>	<b>127,124</b>	<b>263,247</b>	<b>255,341</b>
Provision for credit losses		11,500		29,000
<b>Net interest income after provision for credit losses</b>	<b>132,275</b>	<b>115,624</b>	<b>263,247</b>	<b>226,341</b>
<b>Non interest Income</b>				
Trust and investment fees	16,664	12,192	32,252	18,730
Brokerage and mutual fund fees	9,367	9,313	18,093	18,255
Cash management and deposit transaction charges	10,942	10,876	22,040	21,983
International services	5,042	5,019	10,168	9,347
Bank owned life insurance	715	731	1,546	1,445
Gain on sale of loans and assets				102
Gain on sale of securities	871	1,272	1,500	2,502
Other	4,665	5,649	9,237	11,664
<b>Total noninterest income.</b>	<b>48,266</b>	<b>45,052</b>	<b>94,836</b>	<b>84,028</b>
<b>Noninterest Expense</b>				
Salaries and employee benefits	59,306	54,516	118,982	106,321
Net occupancy of premises	7,649	7,862	14,957	14,831
Professional fees	6,730	6,769	12,836	13,205
Information services	4,588	4,302	9,110	8,555
Depreciation	3,274	3,019	6,502	6,138
Marketing and advertising	3,812	3,553	7,319	6,665
Office services	2,487	2,398	4,906	4,968
Amortization of intangibles	1,760	2,227	3,519	4,203
Equipment	636	638	1,401	1,304
Other operating	5,413	6,032	10,654	10,538
<b>Total noninterest expense</b>	<b>95,655</b>	<b>91,316</b>	<b>190,186</b>	<b>176,728</b>
<b>Minority interest in net income of consolidated subsidiaries</b>	<b>1,306</b>	<b>1,065</b>	<b>2,906</b>	<b>1,540</b>

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Income before income taxes	83,580	68,295	164,991	132,101
Income taxes	31,380	22,214	61,893	42,365
<b>Net income</b>	<b>\$ 52,200</b>	<b>\$ 46,081</b>	<b>\$ 103,098</b>	<b>\$ 89,736</b>
Net income per share, basic	\$ 1.07	\$ 0.95	\$ 2.11	\$ 1.85
Net income per share, diluted	\$ 1.03	\$ 0.93	\$ 2.03	\$ 1.80
Shares used to compute income per share, basic	48,796	48,308	48,764	48,543
Shares used to compute income per share, diluted	50,925	49,524	50,864	49,824
Dividends per share	\$ 0.320	\$ 0.205	\$ 0.640	\$ 0.410

See accompanying Notes to the Unaudited Consolidated Financial Statements.

**CITY NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

Dollars in thousands	For the six months ended June 30,	
	2004	2003
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 103,098	\$ 89,736
Adjustments to net income:		
Provision for credit losses		29,000
Amortization of restricted stock awards	1,265	129
Amortization of intangibles	3,519	4,203
Depreciation	6,502	6,138
Deferred income tax benefit	(62,078)	(13,434)
Gain on sales of loans and assets		(102)
Gain on sales of securities	(1,500)	(2,502)
Net decrease (increase) in other assets	(19,240)	10,399
Net decrease in trading securities	62,642	69,166
Other, net	10,319	8,980
Net cash provided by operating activities	104,527	201,713
<b>Cash Flows From Investing Activities</b>		
Purchase of securities	(704,411)	(1,602,880)
Sales of securities available-for-sale	61,322	111,240
Maturities and paydowns of securities	403,592	722,869
Loan principal collections (originations), net	(242,754)	380,151
Purchase of premises and equipment	(6,183)	(10,906)
Net cash for acquisitions		(39,907)
Other, net	(5)	(3)
Net cash used by investing activities.	(488,439)	(439,436)
<b>Cash Flows From Financing Activities</b>		
Net increase in deposits	517,856	327,108
Net decrease in federal funds purchased and securities sold under repurchase agreements	(16,815)	(99,643)
Net decrease in short-term borrowings, net of transfers from long-term debt	(15,010)	(25,000)
Repayment of long-term debt		(1,367)
Net proceeds of issuance of senior debt		221,749
Proceeds from exercise of stock options	22,937	9,015
Stock repurchases	(43,826)	(45,217)
Cash dividends paid	(31,322)	(19,914)
Net cash provided by financing activities	433,820	366,731
Net increase in cash and cash equivalents	49,908	129,008
Cash and cash equivalents at beginning of year	1,107,190	1,002,685
Cash and cash equivalents at end of period	\$ 1,157,098	\$ 1,131,693
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ 26,142	\$ 31,309
Income taxes	66,500	44,000

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Non-cash investing activities:

Transfer from long-term debt to short-term borrowings	\$	\$	15,000
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See accompanying Notes to the Unaudited Consolidated Financial Statements.



**CITY NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**  
**(Unaudited)**

Dollars in thousands	Shares issued	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained Earnings	Deferred Compensation	Treasury stock	Total shareholders equity
Balances, December 31, 2002	50,282,743	\$ 50,283	\$ 400,866	\$ 40,400	\$ 675,195	\$	\$ (56,785)	\$ 1,109,959
Net income					89,736			89,736
Other comprehensive income net of tax								
Net unrealized gain on securities available-for-sale, net of reclassification adjustment of \$0.5 million of net losses included in net income				39				39
Net unrealized loss on cash flow hedges, net of reclassification of \$3.1 million of net gains included in net income				(658)				(658)
Total comprehensive income								89,117
Issuance of shares for stock options		1	(5,279)				14,293	9,015
Restricted stock grants	172,620	171	7,553			(7,724)		
Amortization of restricted stock grants						129		129
Tax benefit from stock options			1,601					1,601
Cash dividends					(19,914)			(19,914)
Repurchased shares, net							(45,217)	(45,217)
Balance, June 30, 2003	50,455,363	\$ 50,455	\$ 404,741	\$ 39,781	\$ 745,017	\$ (7,595)	\$ (87,709)	\$ 1,144,690
Balance, December 31, 2003	50,459,716	\$ 50,460	\$ 401,233	\$ 12,903	\$ 814,591	\$ (6,699)	\$ (53,232)	\$ 1,219,256
Net income					103,098			103,098
Other comprehensive income net of tax								
Net unrealized loss on securities available-for-sale, net of reclassification adjustment of \$0.8 million of net gains included in net income				(47,789)				(47,789)
Net unrealized loss on cash flow hedges, net of reclassification of \$2.8 million of net gains included in net income				(3,532)				(3,532)
Total comprehensive income								51,777

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Issuance of shares for stock options			(8,283)					31,220		22,937		
Restricted stock grants	118,540		118	7,791				(7,909)				
Amortization of restricted stock grants								1,265		1,265		
Tax benefit from stock options				7,722						7,722		
Cash dividends							(31,322)			(31,322)		
Repurchased shares, net									(43,826)	(43,826)		
Balances, June 30, 2004	50,578,256	\$	50,578	\$	408,463	\$	(38,418)	\$	886,367	\$ (13,343)	\$ (65,838)	\$ 1,227,809

See accompanying Notes to Consolidated Financial Statements.

**CITY NATIONAL CORPORATION**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

1. City National Corporation (the Corporation) is the holding company for City National Bank (the Bank). In light of the fact that the Bank comprises substantially all of the business of the Corporation, references to the Company mean the Corporation and the Bank together.

2. The results of operations reflect the interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003. The results for the 2004 interim periods are not necessarily indicative of the results expected for the full year.

3. Trading account securities are stated at market value. Investments not classified as trading securities are classified as securities available-for-sale and recorded at fair value. Unrealized holding gains or losses for securities available-for-sale, net of taxes are excluded from net income and are reported as other comprehensive income included as a separate component of shareholders' equity.

4. Certain prior periods' data have been reclassified to conform to current period presentation.

5. Reserves established as purchase price adjustments for the February 29, 2000 acquisition of The Pacific Bank N.A. and for the February 28, 2002 acquisition of Civic BanCorp of \$0.6 million for exit costs relating to surplus space remain as of June 30, 2004.

6. The following table provides information about purchases by the Company during the quarter ended June 30, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

<b>Period</b>	<b>Total Number of Shares (or Units) Purchased</b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Total number of Shares (or Units) Purchased as Part of Publicly Announced Plans</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans</b>
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			or Programs	or Programs
04/01/04 - 04/30/04	2,752	\$	60.81	1,016,900
05/01/04 - 05/31/04	7,949		60.07	1,009,500(2)
	10,701(1)	\$	60.26	7,400
				1,009,500

(1) We repurchased an aggregate of 7,400 shares of our common stock pursuant to a repurchase program that we publicly announced on July 15, 2003 (the Program ) and we received 3,301 shares in payment of the exercise price of stock options.

(2) Our board of directors, on March 24, 2004, approved the repurchase by us of up to an aggregate of 1 million shares of our common stock pursuant to a new program to follow completion of the Program described in (1) above. Unless terminated earlier by resolution of our board of directors, the Programs will expire when we have repurchased all shares authorized for repurchase thereunder.

Basic earnings per share is based on the weighted average shares of common stock outstanding less unvested restricted shares and units. Diluted earnings per share gives effect to all dilutive potential common shares which consists of stock options and restricted shares and units that were outstanding during the period. At June 30, 2004, no stock options were antidilutive compared with 1,189,835 antidilutive stock options at June 30, 2003.

7. The Company applies APB Opinion No. 25 in accounting for stock option plans and, accordingly, no compensation cost has been recognized for its plans in the financial statements. As a practice, the Corporation's stock option grants are such that the exercise price equals the current market price of the common stock. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under

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SFAS No. 123 using the Black Scholes option-pricing model, the Company's proforma net income would have been reduced to the proforma amounts indicated below:

Dollars in thousands, except for per share amounts	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
Net income, as reported	\$ 52,200	\$ 46,081	\$ 103,098	\$ 89,736