

CATHAY GENERAL BANCORP
Form 10-Q
May 07, 2010

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, 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)

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

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 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, 78,512,698 shares outstanding as of April 30, 2010.

CATHAY GENERAL BANCORP AND SUBSIDIARIES

1ST QUARTER 2010 REPORT ON FORM 10-Q

TABLE OF CONTENTS

<u>PART I FINANCIAL INFORMATION</u>	5
Item 1. <u>FINANCIAL STATEMENTS (Unaudited)</u>	5
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)</u>	8
Item 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.</u>	28
Item 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	60
Item 4. <u>CONTROLS AND PROCEDURES.</u>	61
<u>PART II OTHER INFORMATION</u>	61
Item 1. <u>LEGAL PROCEEDINGS.</u>	61
Item 1A. <u>RISK FACTORS.</u>	61
Item 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.</u>	62
Item 3. <u>DEFAULTS UPON SENIOR SECURITIES.</u>	62
Item 4. <u>(REMOVED AND RESERVED.)</u>	62
Item 5. <u>OTHER INFORMATION.</u>	62
Item 6. <u>EXHIBITS.</u>	63
<u>SIGNATURES</u>	64

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;

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;

the short term and long term impact of the new Basel II capital standards and the forthcoming new capital rules to be proposed for non-Basel II U.S. banks;

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.

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

	March 31, 2010	December 31, 2009
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	\$ 64,926	\$ 100,124
Short-term investments and interest bearing deposits	327,773	254,726
Securities held-to-maturity (market value of \$634,374 in 2010 \$628,908 in 2009)	635,208	635,015
Securities available-for-sale (amortized cost of \$3,209,907 in 2010 and \$2,916,491 in 2009)	3,222,407	2,915,099
Trading securities	13,004	18
Loans held for sale	20,944	54,826
Loans	6,852,549	6,899,142
Less: Allowance for loan losses	(233,120)	(211,889)
Unamortized deferred loan fees	(8,017)	(8,339)
Loans, net	6,611,412	6,678,914
Federal Home Loan Bank stock	71,791	71,791
Other real estate owned, net	111,858	71,014
Investments in affordable housing partnerships, net	94,481	95,853
Premises and equipment, net	107,972	108,635
Customers liability on acceptances	19,637	26,554
Accrued interest receivable	33,961	35,982
Goodwill	316,340	316,340
Other intangible assets	21,573	23,157
Other assets	197,211	200,184
Total assets	\$ 11,870,498	\$ 11,588,232
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Non-interest-bearing demand deposits	\$ 854,654	\$ 864,551
Interest-bearing accounts:		
NOW accounts	360,466	337,304
Money market accounts	901,050	943,164
Saving accounts	354,717	347,724
Time deposits under \$100,000	1,693,753	1,529,954
Time deposits of \$100,000 or more	3,581,638	3,482,343
Total deposits	7,746,278	7,505,040
Securities sold under agreements to repurchase	1,559,000	1,557,000
Advances from the Federal Home Loan Bank	864,362	929,362
Other borrowings from financial institutions	13,351	7,212
Other borrowings for affordable housing investments	19,276	19,320
Long-term debt	171,136	171,136
Acceptances outstanding	19,637	26,554
Other liabilities	60,359	59,864

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

Total liabilities	10,453,399	10,275,488
Commitments and contingencies		
Stockholders' equity		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding in 2010 and in 2009	244,834	243,967
Common stock, \$0.01 par value; 100,000,000 shares authorized, 82,719,439 issued and 78,511,874 outstanding at March 31, 2010 and 67,667,155 issued and 63,459,590 outstanding at December 31, 2009	827	677
Additional paid-in-capital	760,530	634,623
Accumulated other comprehensive income/(loss), net	7,174	(875)
Retained earnings	520,970	551,588
Treasury stock, at cost (4,207,565 shares at March 31, 2010 and at December 31, 2009)	(125,736)	(125,736)
Total Cathay General Bancorp stockholders' equity	1,408,599	1,304,244
Noncontrolling Interest	8,500	8,500
Total equity	1,417,099	1,312,744
Total liabilities and equity	\$ 11,870,498	\$ 11,588,232

See accompanying notes to unaudited condensed consolidated financial statements

CATHAY GENERAL BANCORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

(Unaudited)

	Three months ended March 31,	
	2010 (In thousands, except share and per share data)	2009
INTEREST AND DIVIDEND INCOME		
Loan receivable, including loan fees	\$ 95,739	\$ 103,994
Investment securities- taxable	30,288	32,194
Investment securities- nontaxable	77	246
Federal Home Loan Bank stock	48	
Federal funds sold and securities purchased under agreements to resell		1,302
Deposits with banks	317	58
Total interest and dividend income	126,469	137,794
INTEREST EXPENSE		
Time deposits of \$100,000 or more	15,383	23,237
Other deposits	9,101	16,115
Securities sold under agreements to repurchase	16,312	15,936
Advances from Federal Home Loan Bank	10,039	10,565
Long-term debt	913	1,505
Short-term borrowings		11
Total interest expense	51,748	67,369
Net interest income before provision for credit losses	74,721	70,425
Provision for credit losses	84,000	47,000
Net interest (loss)/income after provision for credit losses	(9,279)	23,425
NON-INTEREST INCOME		
Securities gains, net	3,439	22,498
Letters of credit commissions	959	976
Depository service fees	1,357	1,399
Other operating (loss)/income	(971)	2,788
Total non-interest income	4,784	27,661
NON-INTEREST EXPENSE		
Salaries and employee benefits	15,226	16,886
Occupancy expense	3,838	4,121
Computer and equipment expense	2,013	1,896
Professional services expense	4,639	2,967
FDIC and State assessments	5,144	2,854
Marketing expense	899	1,028
Other real estate owned expense	3,295	2,142
Operations of affordable housing investments , net	2,113	1,698
Amortization of core deposit intangibles	1,507	1,711

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

Other operating expense	5,489	2,220
Total non-interest expense	44,163	37,523
(Loss)/income before income tax (benefit)/expense	(48,658)	13,563
Income tax (benefit)/expense	(23,068)	3,175
Net (loss)/income	(25,590)	10,388
Less: net income attributable to noncontrolling interest	(151)	(151)
Net (loss)/income attributable to Cathay General Bancorp	(25,741)	10,237
Dividends on preferred stock	(4,092)	(4,080)
Net (loss)/income available to common stockholders	(29,833)	6,157
Other comprehensive income (loss) , net of tax		
Unrealized holding gains arising during the period	9,495	9,460
Less: reclassification adjustments included in net income	1,446	11,779
Total other comprehensive gain/(loss), net of tax	8,049	(2,319)
Total comprehensive (loss)/income	\$ (17,692)	\$ 7,918
Net (loss)/income per common share:		
Basic	\$ (0.41)	\$ 0.12
Diluted	\$ (0.41)	\$ 0.12
Cash dividends paid per common share	\$ 0.010	\$ 0.105
Basic average common shares outstanding	72,653,755	49,531,343
Diluted average common shares outstanding	72,653,755	49,541,041

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	
	2010	2009
	(In thousands)	
Cash Flows from Operating Activities		
Net (loss)/income	\$ (25,590)	\$ 10,388
Adjustments to reconcile net income to net cash provided/(used) by operating activities:		
Provision for credit losses	84,000	47,000
Provision for losses on other real estate owned	2,855	1,641
Deferred tax (benefit)/liability	(17,131)	5,434
Depreciation	2,071	1,935
Net gains on sale of other real estate owned	(1,368)	
Net gains on sale of loans held for sale		(39)
Proceeds from sale of loans held for sale		3,562
Purchase of trading securities		(348,315)
Proceeds from sale of trading securities		99,785
Write-downs on venture capital investments	199	707
Write-downs on impaired securities		82
Gain on sales and calls of securities	(3,439)	(22,580)
Other non-cash interest	61	14
Amortization of security premiums, net	1,177	256
Amortization of intangibles	1,527	1,725
Excess tax short-fall from share-based payment arrangements	87	114
Stock based compensation expense	1,137	1,458
Decrease in deferred loan fees, net	(322)	
Decrease in accrued interest receivable	2,021	7,048
Increase/(decrease) in other assets, net	15,806	(7,623)
Increase in other liabilities	1,567	3,042
Net cash provided/(used) by operating activities	64,658	(194,366)
Cash Flows from Investing Activities		
Increase in short-term investments	(73,047)	(6,000)
Decrease in securities purchased under agreements to resell		201,000
Purchase of investment securities available-for-sale	(1,267,803)	(833,833)
Proceeds from maturity and calls of investment securities available-for-sale	493,170	800,110
Proceeds from sale of investment securities available-for-sale	45,077	
Purchase of mortgage-backed securities available-for-sale		(730,019)
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	438,445	922,333
Purchase of investment securities held-to-maturity	(10,000)	
Proceeds from maturity and call of investment securities held-to-maturity	9,465	
Purchase of trading securities	(12,981)	
Net decrease/(increase) in loans	(34,254)	33,353
Purchase of premises and equipment	(883)	(5,834)
Proceeds from sale of other real estate owned	9,739	
Net increase in investment in affordable housing	(1,999)	(6,235)
Net cash (used)/provided in investing activities	(405,071)	374,875
Cash Flows from Financing Activities		
Net (decrease)/increase in demand deposits, NOW accounts, money market and saving deposits	(21,856)	201,005

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

Net increase in time deposits	263,022	227,726
Net increase/(decrease) in federal funds purchased and securities sold under agreement to repurchase	2,000	(96,000)
Advances from Federal Home Loan Bank		551,000
Repayment of Federal Home Loan Bank borrowings	(65,000)	(1,071,000)
Cash dividends	(785)	(5,198)
Issuance of common stock	124,924	
Cash dividends paid to preferred stockholders	(3,225)	(2,488)
Proceeds from other borrowings	6,139	10,000
Proceeds from shares issued to Dividend Reinvestment Plan	83	584
Proceeds from exercise of stock options		14
Excess tax short-fall from share-based payment arrangements	(87)	(114)
Net cash provided/(used) by financing activities	305,215	(184,471)
Decrease in cash and cash equivalents	(35,198)	(3,962)
Cash and cash equivalents, beginning of the period	100,124	84,818
Cash and cash equivalents, end of the period	\$ 64,926	\$ 80,856
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest	\$ 51,903	\$ 67,403
Income taxes (refund)	\$ (7,142)	\$ 8,000
Non-cash investing and financing activities:		
Net change in unrealized holding gain/(loss) on securities available-for-sale, net of tax	\$ 8,049	\$ (2,319)
Adjustment to initially apply SFAS No. 160	\$	\$ 8,500
Loans to facilitate sale of loans	\$ 23,500	\$
Transfers to other real estate owned	\$ 51,972	\$ 5,005
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, 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.

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.

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.

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

(Dollars in thousands, except share and per share data)	For the three months ended March 31,	
	2010	2009
Net(loss)/ Income attributable to Cathay General Bancorp	\$ (25,741)	\$ 10,237
Dividends on preferred stock	(4,092)	(4,080)
Net (loss)/ income available to common stockholders	\$ (29,833)	\$ 6,157
Weighted-average shares:		
Basic weighted-average number of common shares outstanding	72,653,755	49,531,343
Dilutive effect of weighted-average outstanding common shares equivalents		
Stock Options		9,698
Diluted weighted-average number of common shares outstanding	72,653,755	49,541,041
Average shares of stock options and warrants with anti-dilutive effect	6,988,181	7,007,163
(Loss)/Earnings per common stock share:		
Basic	\$ (0.41)	\$ 0.12
Diluted	\$ (0.41)	\$ 0.12

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 March 31, 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 options granted to the Chief Executive Officer of the Company for 100,000 shares granted on February 21, 2008, of which 50% were vested on February 21, 2009, and the remaining 50% were vested on February 21, 2010. 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 quarter of 2010. The Company expects to issue new shares to satisfy stock option exercises and the vesting of restricted stock units.

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 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. Option compensation expense totaled \$1.1 million for the three months ended March 31, 2010, and \$1.4 million for the three months ended March 31, 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 \$3.9 million at March 31, 2010, and is expected to be recognized over the next 2.0 years.

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

No stock options were exercised during the first quarter of 2010 and 1,280 shares were exercised during the first quarter of 2009. 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 three months ended March 31, 2009. The fair value of stock options vested were \$4.8 million during the first quarter of 2010 compared to \$5.5 million during the first 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
Exercisable at March 31, 2010	4,571,186	\$ 28.13	4.1	\$ 3

At March 31, 2010, 1,713,693 shares were available under the Company's 2005 Incentive Plan for future grants.

In addition to stock options above, in February 2008, the Company also granted restricted stock units on 82,291 shares of the Company's common stock to its eligible employees. On the date of granting of 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 of 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. Common stock shares of 12,963 were issued and outstanding as of February 21, 2009. On February 21, 2010, additional restricted stock units of 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 grant as of March 31, 2010:

	Units
Balance at December 31, 2009	60,021
Vested	(15,006)
Cancelled or forfeited	(668)
Balance at March 31, 2010	44,347

The compensation expense recorded related to the restricted stock units above was \$82,000 for the three months ended March 31, 2010, and \$82,000 for the three months ended March 31, 2009. Unrecognized stock-based compensation expense related to restricted stock units was \$954,000 at March 31, 2010, and is expected to be recognized over the next 2.9 years.

Prior to 2006, the Company presented the entire amount of the tax benefit on options exercised as operating activities in the consolidated statements of cash flows. After adoption of SFAS No. 123R in January 2006, the Company reports the benefits of tax deductions in excess of grant-date fair value as cash flows from operating activity and financing activity. The following table summarizes the tax benefit (short-fall) from share-based payment arrangements:

(Dollars in thousands)	For the three months ended March 31,	
	2010	2009
Short-fall of tax deductions in excess of grant-date fair value	\$ (87)	\$ (114)
Benefit of tax deductions on grant-date fair value	87	117
Total benefit of tax deductions	\$	\$ 3

6. Investment Securities

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

	Amortized Cost	March 31, 2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Securities Held-to-Maturity				
U.S. government sponsored entities	\$ 109,887	\$ 1,676	\$	\$ 111,563
Mortgage-backed securities	525,321		2,510	522,811
Total securities held-to-maturity	\$ 635,208	\$ 1,676	\$ 2,510	\$ 634,374
Securities Available-for-Sale				
U.S. government sponsored entities	\$ 1,613,045	\$ 2,107	\$ 2,108	\$ 1,613,044
State and municipal securities	9,547	95		9,642
Mortgage-backed securities	1,507,505	13,930	1,046	1,520,389
Collateralized mortgage obligations	45,396	344	1,242	44,498
Asset-backed securities	262		40	222
Corporate bonds	10,246	512		10,758
Preferred stock of government sponsored entities	1,061	237	4	1,294
Other securities-foreign	21,795	11	95	21,711
Other equity securities	1,050		201	849
Total securities available-for-sale	\$ 3,209,907	\$ 17,236	\$ 4,736	\$ 3,222,407
Total investment securities	\$ 3,845,115	\$ 18,912	\$ 7,246	\$ 3,856,781

	Amortized Cost	December 31, 2009		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Securities Held-to-Maturity				
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
Securities Available-for-Sale				
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	10,246		489	9,757
Preferred stock of government sponsored entities	1,061	211		1,272
Other securities-foreign	14,975		84	14,891
Other equity securities	1,050			1,050
Total securities available-for-sale	\$ 2,916,491	\$ 11,600	\$ 12,992	\$ 2,915,099
Total investment securities	\$ 3,551,506	\$ 12,787	\$ 20,286	\$ 3,544,007

The amortized cost and fair value of investment securities at March 31, 2010, by contractual maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

	Securities Available-for-Sale		Securities Held-to-Maturity	
	Cost	Fair Value	Cost	Fair Value
(In thousands)				
Due in one year or less	\$ 1,064	\$ 1,069	\$	\$
Due after one year through five years	1,583,457	1,582,469	109,887	111,563
Due after five years through ten years	245,870	252,012		
Due after ten years (1)	1,379,516	1,386,857	525,321	522,811
Total	\$ 3,209,907	\$ 3,222,407	\$ 635,208	\$ 634,374

(1) Equity securities are reported in this category.

Proceeds from sales and repayments of mortgage-backed securities were \$438.4 million during the first quarter of 2010 compared to \$922.3 million during the first quarter of 2009. Proceeds from sales and repayments of other investment securities were \$45.1 million during the first quarter of 2010 compared to none during the first quarter of 2009. Proceeds from maturity and calls of investment securities were \$493.2 million during the first quarter of 2010 compared to \$800.1 million during the first quarter of 2009. Gains of \$3.4 million and no losses were realized on sales and calls of investment securities during the first quarter of 2010 compared with \$22.6 million in gains and no losses realized for the same quarter a year ago.

ASC Topic 320 requires an entity to assess whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an entity must recognize an other-than-temporary impairment (OTTI). If

an entity does not intend to sell the debt security and will not be required to sell the debt security, the entity must consider whether it will recover the amortized cost basis of the security. If the present value of expected cash flows is less than the amortized cost basis of the security, OTTI shall be considered to have occurred. OTTI is then separated into the amount of the total impairment related to credit losses and the amount of the total impairment related to all other factors. An entity determines the impairment related to credit losses by comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. OTTI related to the credit loss is then recognized in earnings. OTTI related to all other factors is recognized in other comprehensive income. OTTI not related to the credit loss for a held-to-maturity security should be recognized separately in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the carrying value of the security only when the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its remaining amortized cost basis. The Company expects to recover the amortized cost basis of its debt securities, and has no intent to sell and will not be required to sell available-for-sale securities that have declined below their cost before their anticipated recovery. At March 31, 2010, there was no other-than-temporary impairment recognized in earnings. Other-than-temporary impairment related to all other factors was recognized in other comprehensive income.

Between 2002 and 2004, we purchased a number of mortgage-backed securities and collateralized mortgage obligations comprised of interests in non-agency guaranteed residential mortgages. At March 31, 2010, the remaining par value was \$12.8 million for non-agency guaranteed mortgage-backed securities with unrealized losses of \$841,000 and \$40.2 million of collateralized mortgage obligations with unrealized losses of \$1.2 million. The remaining par value of these securities totaled \$52.9 million which represents 1.4% of the fair value of investment securities and 0.5% of total assets. At March 31, 2010, the unrealized loss for these securities totaled \$2.0 million which represented 3.8% of the par amount of these non-agency guaranteed residential mortgages. Based on the Company's analysis at March 31, 2010, there was no other-than-temporary impairment in these securities due to the low loan to value ratio for the loans underlying these securities, the credit support provided by junior tranches of these securitizations, and the continued AAA rating for all but four issues of these securities. The Company's analysis also indicated the continued full ultimate collection of principal and interest for the four issues that were no longer rated AAA.

The temporarily impaired securities represent 39.6% of the fair value of investment securities as of March 31, 2010. Unrealized losses for securities with unrealized losses for less than twelve months represent 0.3%, and securities with unrealized losses for twelve months or more represent 5.1%, of the historical cost of these securities. Unrealized losses on these securities generally resulted from increases in interest rate spreads subsequent to the date that these securities were purchased. All of these securities are investment grade as of March 31, 2010. At March 31, 2010, 13 issues of securities had unrealized losses for 12 months or longer and 42 issues of securities had unrealized losses of less than 12 months.

Edgar Filing: CATHAY GENERAL BANCORP - Form 10-Q

At March 31, 2010, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our consolidated statements of operations. The table below shows the fair value, unrealized losses, and number of issuances of the temporarily impaired securities in our investment securities portfolio as of March 31, 2010, and December 31, 2009:

	Less than 12 months			As of March 31, 2010 Temporarily Impaired Securities 12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
Securities Held-to-Maturity									
Mortgage-backed securities	\$ 522,811	\$ 2,510	12				\$ 522,811	\$ 2,510	12
Total securities held-to-maturity	522,811	2,510	12				522,811	2,510	12
Securities Available-for-Sale									
U.S. government sponsored entities	817,023	2,108	19				817,023	2,108	19
Mortgage-backed securities	137,943	197	6	662	8	2	138,605	205	8
Mortgage-backed securities-Non-agency				11,889	841	3	11,889	841	3
Collateralized mortgage obligations	162	10	1	27,050	1,232	8	27,212	1,242	9
Asset-backed securities				222	40	1	222	40	1
Preferred stock of government sponsored entities	121	4	1				121	4	1
Other securities-foreign organization	7,805	95	1				7,805	95	1
Other equity securities	849	201	1				849	201	1
Total securities available-for-sale	963,903	2,615	29	39,823	2,121	14	1,003,726	4,736	43
Total investment securities	\$ 1,486,714	\$ 5,125	41	\$ 39,823	\$ 2,121	14	\$ 1,526,537	\$ 7,246	55

	Less than 12 months			As of December 31, 2009 Temporarily Impaired Securities 12 months or longer			Total		
	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances	Fair Value	Unrealized Losses	No. of Issuances
Securities Held-to-Maturity									
Mortgage-backed securities	\$ 527,845	\$ 7,294	12				\$ 527,845	\$ 7,294	12
Total securities held-to-maturity	527,845	7,294	12				527,845	7,294	12
Securities Available-for-Sale									
U.S. Treasury entities	\$ 13,748	\$ 77	2	\$			\$ 13,748	\$ 77	2
U.S. government sponsored entities	408,888	3,230	9				408,888	3,230	9
State and municipal securities				659	36	1	659	36	1
Mortgage-backed securities	1,050,968	6,216	32	855	3	5	1,051,823	6,219	37
Mortgage-backed securities-Non-agency				12,302	1,156	3	12,302	1,156	3
Collateralized mortgage obligations									