

ITLA CAPITAL CORP
Form 10-Q
November 14, 2003

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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, 2003

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 0-26960

ITLA CAPITAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

95-4596322

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

888 Prospect St., Suite 110, La Jolla, California

92037

(Address of Principal Executive Offices)

(Zip Code)

(858) 551-0511

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 12, 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 Exchange Act). Yes No

Number of shares of common stock of the registrant: 6,053,669 outstanding as of November 4, 2003.

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FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003

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Forward Looking Statements

Safe Harbor statement under the Private Securities Litigation Reform Act of 1995: This Form 10-Q contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to, changes in economic conditions in our market areas, changes in policies by regulatory agencies, the impact of competitive loan products, loan demand risks, the quality or composition of our loan or investment portfolios, fluctuations in interest rates and changes in the relative differences between short and long term interest rates, levels of nonperforming assets and operating results, the impact of terrorist actions and other risks detailed from time to time in our filings with the Securities and Exchange Commission. We caution readers not to place undue reliance on forward-looking statements. We do not undertake and specifically disclaim any obligation to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for 2003 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us.

As used throughout this report, the terms "we", "our", "ITLA Capital" or the "Company" refer to ITLA Capital Corporation and its consolidated subsidiaries.

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**ITLA CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	September 30, 2003 (unaudited)	December 31, 2002
(in thousands except share amounts)		
Assets		
Cash and cash equivalents	\$ 85,592	\$ 160,848
Investment securities available for sale, at fair value	46,015	54,677
Stock in Federal Home Loan Bank	15,887	16,934
Loans, net (net of allowance for loan losses of \$31,244 and \$31,081 as of September 30, 2003 and December 31, 2002, respectively)	1,332,098	1,316,298
Real estate loans held in trust, net (net of allowance for loan losses of \$1,928 as of September 30, 2003 and December 31, 2002)	85,195	121,936
Interest receivable	8,331	9,158
Other real estate owned, net	14,767	12,593
Premises and equipment, net	5,381	4,197
Deferred income taxes	13,923	13,822
Goodwill	3,118	3,118
Other assets	16,667	8,384
	<u> </u>	<u> </u>
Total assets	\$1,626,974	\$1,721,965
	<u> </u>	<u> </u>
Liabilities and Shareholders' Equity		
Liabilities:		
Deposit accounts	\$ 987,418	\$1,065,911
Federal Home Loan Bank advances	317,735	338,685
Collateralized mortgage obligations	32,550	69,077
Accounts payable and other liabilities	27,987	10,006
	<u> </u>	<u> </u>
Total liabilities	1,365,690	1,483,679
	<u> </u>	<u> </u>
Commitments and contingencies		
Guaranteed preferred beneficial interests in the Company's junior subordinated deferrable interest debentures, net	81,797	81,595
Shareholders' equity:		
Preferred stock, 5,000,000 shares authorized, none issued		
Contributed capital - common stock, \$.01 par value; 20,000,000 shares authorized, 8,261,408 and 8,226,414 issued as of September 30, 2003 and December 31, 2002, respectively	59,748	58,841
Retained earnings	159,691	135,773
Accumulated other comprehensive income	126	435
	<u> </u>	<u> </u>
	219,565	195,049
Less treasury stock, at cost 2,489,826 and 2,447,656 shares as of September 30, 2003 and December 31, 2002, respectively	(40,078)	(38,358)
	<u> </u>	<u> </u>
Total shareholders' equity	179,487	156,691
	<u> </u>	<u> </u>

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Total liabilities and shareholders equity	\$1,626,974	\$1,721,965
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See accompanying notes to the unaudited consolidated financial statements.

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ITLA CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
(in thousands except per share amounts)				
Interest income:				
Loans, including fees	\$24,802	\$24,020	\$78,877	\$70,598
Real estate loans held in trust	1,407	2,458	5,036	7,960
Cash and investment securities	866	902	4,597	2,427
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total interest income	27,075	27,380	88,510	80,985
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Interest expense:				
Deposit accounts	5,544	6,815	18,681	22,203
Federal Home Loan Bank advances	1,367	1,422	3,855	4,310
Collateralized mortgage obligations	204	563	885	1,852
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total interest expense	7,115	8,800	23,421	28,365
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net interest income before provision for loan losses	19,960	18,580	65,089	52,620
Provision for loan losses	750	2,700	7,100	6,125
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net interest income after provision for loan losses	19,210	15,880	57,989	46,495
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Non-interest income:				
Premium on sale of loans, net			8,983	
Late and collection fees	61	38	192	157
Other	716	(92)	5,379	16
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total non-interest income	777	(54)	14,554	173
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Non-interest expense:				
Compensation and benefits	4,610	3,303	14,735	9,781
Occupancy and equipment	1,236	777	3,502	2,232
Other	3,112	2,379	9,755	7,076
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total general and administrative	8,958	6,459	27,992	19,089
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Real estate owned expense, net	220	71	373	325
Provision for losses on other real estate owned			370	796
Loss (gain) on sale of other real estate owned, net	389		60	(75)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total real estate owned expense, net	609	71	803	1,046
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total non-interest expense	9,567	6,530	28,795	20,135
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income before provision for income taxes and minority interest in income of subsidiary	10,420	9,296	43,748	26,533

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Minority interest in income of subsidiary	1,540	815	4,506	2,411
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income before provision for income taxes	8,880	8,481	39,242	24,122
Provision for income taxes	3,473	3,326	15,324	9,443
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET INCOME	\$ 5,407	\$ 5,155	\$23,918	\$14,679
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BASIC EARNINGS PER SHARE	\$ 0.90	\$ 0.86	\$ 3.97	\$ 2.45
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
DILUTED EARNINGS PER SHARE	\$ 0.83	\$ 0.80	\$ 3.69	\$ 2.29
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to the unaudited consolidated financial statements.

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ITLA CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Nine Months Ended
September 30,

2003

2002

(in thousands)

	2003	2002
Cash Flows From Operating Activities:		
Net Income	\$ 23,918	\$ 14,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,119	674
Amortization of premium on purchased loans	1,549	1,532
Amortization of original issue discount on collateralized mortgage obligations	57	136
Accretion of deferred loan origination fees, net of costs	(1,992)	(868)
Provision for loan losses	7,100	6,125
Provision for losses on other real estate owned	370	796
Loss (gain) on sales of other real estate owned	60	(75)
Decrease in interest receivable	827	2,127
Increase in other assets	(8,283)	(912)
Increase (decrease) in accounts payable and other liabilities	17,981	(2,899)
Other operating activities, net	250	(32)
	<u>42,956</u>	<u>21,283</u>
Cash Flows From Investing Activities:		
Proceeds from securitization and sale of real estate loans		98,155
Decrease (increase) in loans, net	23,706	(63,527)
Net cash paid to acquire Asahi Bank of California		(14,872)
Repayment of real estate loans held in trust	35,543	28,774
Purchase of loans	(54,040)	(30,084)
Purchases of investment securities available for sale	(34,363)	(77,670)
Proceeds from the maturity and calls of investment securities available for sale	42,365	55,000
Decrease (increase) in stock in Federal Home Loan Bank	1,047	(2,990)
Proceeds from sale of other real estate owned	6,471	2,720
Other investing activities, net	(1,793)	(1,822)
	<u>18,936</u>	<u>(6,316)</u>
Cash Flows From Financing Activities:		
Decrease in deposit accounts	(78,493)	(68,938)
Net (repayment of) proceeds from borrowings from the Federal Home Loan Bank	(20,950)	59,800
Repayment of Asahi repurchase agreement, net		(14,693)
Principal payments on collateralized mortgage obligations	(36,584)	(30,384)
Cash paid to acquire treasury stock	(1,720)	(2,343)
Proceeds from exercise of employee stock options	599	184
	<u>(137,148)</u>	<u>(56,374)</u>
Net decrease in cash and cash equivalents	(75,256)	(41,407)
Cash and cash equivalents at beginning of period	160,848	134,241
	<u>\$ 85,592</u>	<u>\$ 92,834</u>

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Supplemental Cash Flow Information:		
Cash paid during the period for interest	\$ 28,116	\$ 28,473
Cash paid during the period for income taxes	\$ 16,260	\$ 10,225
Non-cash Investing Transactions:		
Loans transferred to other real estate owned	\$ 9,075	\$ 4,258