

EAST WEST BANCORP INC
Form 10-Q
May 11, 2009
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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 March 31, 2009

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 000-24939

EAST WEST BANCORP, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

135 N. Los Robles Ave, 7th Floor, Pasadena, California 91101

(Address of principal executive offices) (Zip Code)

(626) 768-6000

(Registrant's telephone number, including area code)

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 and accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Number of shares outstanding of the issuer's common stock on the latest practicable date: 64,036,512 shares of common stock as of April 30, 2009.

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance including future earnings and financial condition. The Company's actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. Such risk and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- changes in our borrowers' performance on loans;
- changes in the commercial and consumer real estate markets;
- changes in our costs of operation, compliance and expansion;
- changes in the economy, including inflation;
- changes in government interest rate policies;
- changes in laws or the regulatory environment;
- changes in critical accounting policies and judgments;
- changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies;
- changes in the equity and debt securities markets;

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- changes in competitive pressures on financial institutions;
- effect of additional provision for loan losses;
- effect of any goodwill impairment;
- fluctuations of our stock price;
- success and timing of our business strategies;
- impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- changes in our ability to receive dividends from our subsidiaries; and
- political developments, wars or other hostilities that may disrupt or increase volatility in securities or otherwise affect economic conditions.

For a more detailed discussion of some of the factors that might cause such differences, see the Company's 2008 Form 10-K under the heading ITEM 1A. RISK FACTORS. The Company does not undertake, and specifically disclaims any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	March 31, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	\$ 541,066	\$ 878,853
Short-term investments	329,288	228,441
Securities purchased under resale agreements	50,000	50,000
Investment securities held-to-maturity, at amortized cost (with fair value of \$717,666 at March 31, 2009 and \$123,105 at December 31, 2008)	734,799	122,317
Investment securities available-for-sale, at fair value (with amortized cost of \$2,132,686 at March 31, 2009 and \$2,189,570 at December 31, 2008)	1,994,403	2,040,194
Loans receivable, net of allowance for loan losses of \$195,450 at March 31, 2009 and \$178,027 at December 31, 2008	7,865,925	8,069,377
Investment in Federal Home Loan Bank stock, at cost	86,729	86,729
Investment in Federal Reserve Bank stock, at cost	36,785	27,589
Other real estate owned, net	38,634	38,302
Investment in affordable housing partnerships	49,684	48,141
Premises and equipment, net	58,479	60,184
Due from customers on acceptances	3,887	5,538
Premiums on deposits acquired, net	20,065	21,190
Goodwill	337,438	337,438
Cash surrender value of life insurance policies	95,665	94,745
Deferred tax assets	182,484	184,588
Accrued interest receivable and other assets	139,193	129,190
TOTAL	\$ 12,564,524	\$ 12,422,816

LIABILITIES AND STOCKHOLDERS EQUITY

Customer deposit accounts:		
Noninterest-bearing	\$ 1,297,151	\$ 1,292,997
Interest-bearing	7,156,908	6,848,962
Total customer deposits	8,454,059	8,141,959
Federal funds purchased	22	28,022
Federal Home Loan Bank advances	1,233,269	1,353,307
Securities sold under repurchase agreements	998,061	998,430
Notes payable	14,597	16,506
Bank acceptances outstanding	3,887	5,538
Long-term debt	235,570	235,570
Accrued interest payable, accrued expenses and other liabilities	89,866	92,718
Total liabilities	11,029,331	10,872,050

COMMITMENTS AND CONTINGENCIES (Note 8)

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STOCKHOLDERS EQUITY

Preferred stock, \$0.001 par value, 5,000,000 shares authorized; Series A, non-cumulative convertible, 200,000 shares issued and 196,505 shares outstanding in 2009 and 2008; Series B, cumulative, 306,546 shares issued and outstanding in 2009 and 2008.	473,340	472,311
Common stock, \$0.001 par value, 200,000,000 shares authorized; 70,668,285 and 70,377,989 shares issued in 2009 and 2008, respectively; 63,957,813 and 63,745,624 shares outstanding in 2009 and 2008, respectively	70	70
Additional paid in capital	697,138	695,521
Retained earnings	548,144	572,172
Treasury stock, at cost 6,710,472 shares in 2009 and 6,632,365 shares in 2008	(103,429)	(102,817)
Accumulated other comprehensive loss, net of tax	(80,070)	(86,491)
Total stockholders equity	1,535,193	1,550,766
TOTAL	\$ 12,564,524	\$ 12,422,816

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended March 31,	
	2009	2008
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	\$ 110,816	\$ 155,434
Investment securities held-to-maturity	6,882	
Investment securities available-for-sale	22,493	27,050
Securities purchased under resale agreements	1,250	2,553
Investment in Federal Home Loan Bank stock		1,284
Investment in Federal Reserve Bank stock	506	325
Short-term investments	2,976	538
Total interest and dividend income	144,923	187,184
INTEREST EXPENSE		
Customer deposit accounts	37,073	52,253
Federal Home Loan Bank advances	13,877	19,682
Securities sold under repurchase agreements	11,872	10,529
Long-term debt	2,417	3,723
Federal funds purchased	3	1,378
Total interest expense	65,242	87,565
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	79,681	99,619
PROVISION FOR LOAN LOSSES	78,000	55,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,681	44,619
NONINTEREST INCOME		
Impairment loss on investment securities	(13,380)	
Less: Noncredit-related impairment loss recorded in other comprehensive income	13,180	
Net impairment loss on investment securities recognized in earnings	(200)	
Branch fees	4,793	4,101
Net gain on sale of investment securities available-for-sale	3,521	4,334
Ancillary loan fees	2,229	1,141
Letters of credit fees and commissions	1,854	2,677
Income from life insurance policies	1,083	1,028
Net gain on sale of loans	8	1,855
Other operating income	506	777
Total noninterest income	13,794	15,913
NONINTEREST EXPENSE		
Compensation and employee benefits	17,108	23,268
Occupancy and equipment expense	7,391	7,008
Other real estate owned expense	7,031	889
Deposit insurance premiums and regulatory assessments	3,325	1,192
Legal expense	1,778	1,900
Amortization of investments in affordable housing partnerships	1,760	1,715

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Loan-related expense	1,435	1,372
Data processing	1,142	1,196
Amortization and impairment writedown of premiums on deposits acquired	1,125	2,737
Deposit-related expenses	901	948
Other operating expenses	8,410	10,665
Total noninterest expense	51,406	52,890
(LOSS) INCOME BEFORE (BENEFIT) PROVISION FOR INCOME TAXES	(35,931)	7,642
(BENEFIT) PROVISION FOR INCOME TAXES	(13,465)	2,598
NET (LOSS) INCOME	(22,466)	5,044
PREFERRED STOCK DIVIDENDS & AMORTIZATION OF PREFERRED STOCK DISCOUNT	8,743	
NET (LOSS) INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ (31,209)	\$ 5,044
(LOSS) EARNINGS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS		
BASIC	\$ (0.50)	\$ 0.08
DILUTED	\$ (0.50)	\$ 0.08
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.02	\$ 0.10
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
BASIC	62,998	62,485
DILUTED	62,998	62,949

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

	Preferred Stock	Additional Paid In Capital Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss, Net of Tax	Comprehensive Income (Loss)	Total Stockholders Equity
BALANCE, JANUARY 1, 2008	\$	\$	\$ 70	\$ 652,297	\$ 657,183	\$ (98,925)	\$ (38,802)	\$	\$ 1,171,823
Comprehensive income									
Net income for the period					5,044			\$ 5,044	5,044
Net unrealized loss on investment securities available-for-sale							(70,230)	(70,230)	(70,230)
Total comprehensive income								\$ (65,186)	
Cumulative effect of change in accounting principle pursuant to adoption of EITF 06-4					(479)				(479)
Stock compensation costs				1,557					1,557
Tax provision from stock plans				(299)					(299)
Issuance of 254,727 shares pursuant to various stock plans and agreements				393					393
Cancellation of 35,453 shares due to forfeitures of issued restricted stock				1,192		(1,192)			
Purchase accounting adjustment pursuant to DCB Acquisition				2,298					2,298
Purchase of 410 shares of treasury stock due to the vesting of restricted stock						(8)			(8)
Common stock dividends					(6,315)				(6,315)
BALANCE, MARCH 31, 2008	\$	\$	\$ 70	\$ 657,438	\$ 655,433	\$ (100,125)	\$ (109,032)	\$	\$ 1,103,784
BALANCE, JANUARY 1, 2009	\$	\$ 472,311	\$ 70	\$ 695,521	\$ 572,172	\$ (102,817)	\$ (86,491)	\$	\$ 1,550,766
Comprehensive loss									
Net loss for the year					(22,466)			\$ (22,466)	(22,466)
Net unrealized gain on investment securities available-for-sale							22,175	22,175	22,175
Noncredit-related impairment loss on investment securities recorded in the current year							(7,644)	(7,644)	(7,644)
					8,110		(8,110)	(8,110)	

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Cumulative effect adjustment for reclassification of the previously recognized noncredit-related impairment writedowns															
Total comprehensive loss							\$	(16,045)							
Stock compensation costs			1,428						1,428						
Tax provision from stock plans			(403)						(403)						
Series B preferred stock issuance cost	(41)								(41)						
Issuance of 290,296 shares pursuant to various stock plans and agreements			15						15						
Cancellation of 24,134 shares due to forfeitures of issued restricted stock			577		(577)										
Purchase of 8,882 shares of treasury stock due to the vesting of restricted stock								(35)	(35)						
Amortization of Series B preferred stock discount	1,070			(1,070)											
Preferred stock dividends				(7,673)					(7,673)						
Common stock dividends				(929)					(929)						
BALANCE, MARCH 31, 2009	\$	\$	473,340	\$	70	\$	697,138	\$	548,144	\$	(103,429)	\$	(80,070)	\$	1,535,193

Three Months Ended March 31,
2009 **2008**
(In thousands)

Disclosure of reclassification amounts:

Unrealized holding gain(loss) on securities arising during the period, net of tax (expense) benefit of \$(17,453) in 2009 and \$49,036 in 2008	\$	24,101	\$	(67,716)
Less: Reclassification adjustment for (gain) included in net income, net of tax expense of \$ 1,395 in 2009 and \$1,820 in 2008		(1,926)		(2,514)
Net unrealized gain (loss) on securities, net of tax (expense) benefit of \$(16,058) in 2009 and \$50,856 in 2008	\$	22,175	\$	(70,230)

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$	(22,466)