

CB BANCSHARES INC/HI
Form 10-Q
May 10, 2004

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number 0-12396

CB BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Hawaii **99-0197163**
(State of Incorporation) (IRS Employer Identification No.)

201 Merchant Street Honolulu, Hawaii 96813
(Address of principal executive offices)

(808) 535-2500
(Registrant's Telephone Number)

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 Exchange Act).

Yes No

The number of shares outstanding of each of the registrant's classes of common stock as of April 30, 2004 was:

<u>Class</u>	<u>Outstanding</u>
Common Stock, \$1.00 Par Value	4,407,523 shares

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS (Unaudited)

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME (LOSS) (Unaudited)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 4. CONTROLS AND PROCEDURES

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

EXHIBIT INDEX

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED BALANCE SHEETS (Unaudited)**
CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands)	March 31 2004	December 31, 2003	March 31 2003
Assets			
Cash and due from banks	\$ 56,577	\$ 46,566	\$ 34,410
Interest-bearing deposits in other banks	1,109	1,343	19,428
Federal funds sold	2,300	400	
Investment securities:			
Held-to-maturity	105,441	134,163	174,120
Available-for-sale	281,756	302,646	202,610
FHLB stock	31,889	31,576	30,382
Loans held for sale	21,352	56,039	110,381
Loans, net	1,299,474	1,257,582	1,015,423
Premises and equipment	16,712	16,867	16,373
Other real estate owned		173	771
Accrued interest receivable and other assets	56,913	56,306	52,861
Total assets	\$1,873,523	\$1,903,661	\$1,656,759
Liabilities and stockholders equity			
Deposits:			
Noninterest-bearing	\$ 205,336	\$ 217,148	\$ 172,076
Interest-bearing	1,103,242	988,577	974,018
Total Deposits	1,308,578	1,205,725	1,146,094
Short-term borrowings	115,400	305,400	6,400
Accrued expenses and other liabilities	24,487	26,217	27,617
Long-term debt	244,385	194,389	319,402
Minority interest in consolidated subsidiary	2,720	2,720	2,720

Total liabilities	<u>1,695,570</u>	<u>1,734,451</u>	<u>1,502,233</u>
Stockholders' equity:			
Common stock	4,353	4,337	3,917
Additional paid-in capital	103,466	103,050	78,834
Retained earnings	64,778	56,542	67,221
Unreleased shares to employee stock ownership plan	(1,284)	(1,323)	(1,448)
Accumulated other comprehensive income, net of tax	<u>6,640</u>	<u>6,604</u>	<u>6,002</u>
Total stockholders' equity	<u>177,953</u>	<u>169,210</u>	<u>154,526</u>
Total liabilities and stockholders' equity	<u>\$1,873,523</u>	<u>\$1,903,661</u>	<u>\$1,656,759</u>

See accompanying notes to the consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME** (Unaudited)
CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands, except per share data)	Three months ended March 31,	
	2004	2003
Interest income:		
Interest and fees on loans	\$22,313	\$20,684
Interest and dividends on investment securities:		
Taxable interest income	3,784	3,185
Nontaxable interest income	386	390
Dividends	314	496
Other interest income	6	178
	<hr/>	<hr/>
Total interest income	26,803	24,933
	<hr/>	<hr/>
Interest expense:		
Deposits	2,711	3,483
Short-term borrowings	542	43
Long-term debt	2,293	3,105
	<hr/>	<hr/>
Total interest expense	5,546	6,631
	<hr/>	<hr/>
Net interest income	21,257	18,302
Provision for credit losses	500	4,330
	<hr/>	<hr/>
Net interest income after provision for credit losses	20,757	13,972
	<hr/>	<hr/>
Noninterest income:		
Service charges on deposit accounts	1,092	1,111
Other service charges and fees	1,634	1,693
Net realized gains (losses) on sales of securities	2,353	252
Net gains on sales of loans	1,066	882
Item processing fee income	479	425
Other	821	1,148
	<hr/>	<hr/>
Total noninterest income	7,445	5,511
	<hr/>	<hr/>
Noninterest expense:		

Edgar Filing: CB BANCSHARES INC/HI - Form 10-Q

Salaries and employee benefits	7,975	7,174
Net occupancy expense	1,723	1,629
Equipment expense	573	609
Merger proposal expenses	348	
Other	3,923	4,230
	<hr/>	<hr/>
Total noninterest expense	14,542	13,642
	<hr/>	<hr/>
Income before income taxes	13,660	5,841
Income tax expense	3,858	1,869
	<hr/>	<hr/>
Net income	\$ 9,802	\$ 3,972
	<hr/>	<hr/>
Per share data:		
Basic	\$ 2.27	\$ 0.93
Diluted	\$ 2.21	\$ 0.92
	<hr/>	<hr/>

See accompanying notes to the consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**
CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands)	Three months ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 9,802	\$ 3,972
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	500	4,330
Net realized gains on sale of loans, investment and mortgage-backed securities	(3,419)	(1,134)
Depreciation and amortization	1,294	1,090
Decrease (increase) in accrued interest receivable	459	(306)
Decrease in accrued interest payable	154	189
Loans originated for sale	(54,407)	(107,784)
Sale of loans held for sale	51,441	42,167
Increase in other assets	(1,066)	(232)
Increase (decrease) in other liabilities	(1,908)	464
Other	(459)	(422)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	2,391	(57,666)
	<hr/>	<hr/>
Cash flows from investing activities:		
Net decrease (increase) in deposits in other banks	234	(18,214)
Net decrease (increase) in federal funds sold	(1,900)	20,525
Purchase of held-to-maturity securities		(94,549)
Proceeds from maturities of held-to-maturity investment securities	28,228	32,194
Purchase of available-for-sale securities		(11)
Proceeds from sales of available-for-sale securities	42,054	59,902
Proceeds from maturities of available-for-sale securities	13,624	18,863
Net decrease (increase) in loans	(36,286)	17,746
Capital expenditures	(407)	(439)
Proceeds from sales of foreclosed assets	335	1,978
	<hr/>	<hr/>
Net cash provided by investing activities	45,882	37,995
	<hr/>	<hr/>
Cash flows from financing activities:		
Net increase (decrease) in deposits	102,853	(17,133)
Net decrease in short-term borrowings	(190,000)	(4,000)
Proceeds from long-term debt	70,000	
Principal payments on long-term debt	(20,004)	(5)
Cash dividends paid	(1,566)	(430)
Options exercised	376	537

Edgar Filing: CB BANCSHARES INC/HI - Form 10-Q

Stock repurchase		(12)
Unreleased ESOP shares	<u>77</u>	<u>55</u>
Net cash used in financing activities	<u>(38,264)</u>	<u>(20,988)</u>
Increase (decrease) in cash and due from banks	10,011	(40,659)
Cash and due from banks at beginning of period	<u>46,566</u>	<u>75,069</u>
Cash and due from banks at end of period	<u>\$ 56,577</u>	<u>\$ 34,410</u>
Supplemental schedule of non-cash investing activities:		
Interest paid on deposits and other borrowings	\$ 4,863	\$ 6,441
Income taxes paid	\$	\$
Securitization of mortgage loans into mortgage-backed securities classified as available-for-sale	\$ 32,613	\$ 54,065
Loans held for sale reclassified to loans held for investment	<u>\$ 6,106</u>	<u>\$</u>

See accompanying notes to the consolidated financial statements.

Table of Contents

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME (LOSS) (Unaudited)**
CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Unreleased Shares to Accumulated Employee Other Stock Compre- hensive		Total
				Ownership Plan	Income	
Three months ended March 31, 2004:						
Balance at January 1, 2004	\$4,337	\$103,050	\$56,542	\$(1,323)	\$6,604	\$169,210
Comprehensive income						
Net income			9,802			9,802
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					36	36
Comprehensive income subtotal			9,802		36	9,838
Cash dividends (\$0.36 per share)			(1,566)			(1,566)
Options exercised	16	360				376
Directors compensation		18				18
Unreleased ESOP shares		38		39		77
Balance at March 31, 2004	\$4,353	\$103,466	\$64,778	\$(1,284)	\$6,640	\$177,953

(in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Unreleased Shares to Accumulated Employee Other Stock Compre- hensive		Total
				Ownership Plan	Income	
Three months ended March 31, 2003:						
Balance at January 1, 2003	\$3,898	\$78,311	\$63,679	\$(1,486)	\$6,607	\$151,009
Comprehensive income						
Net income			3,972			3,972
Other comprehensive income, net of tax						

Edgar Filing: CB BANCSHARES INC/HI - Form 10-Q

Unrealized losses on securities, net of reclassification adjustment					(605)	(605)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprehensive income subtotal			3,972		(605)	3,367
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash dividends (\$0.10 per share)			(430)			(430)
Options exercised	19	518				537
Repurchased, cancelled and retired shares		(12)				(12)
Unreleased ESOP shares		17		38		55
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at March 31, 2003	\$3,917	\$78,834	\$67,221	\$(1,448)	\$6,002	\$154,526
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to the consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
CB BANCSHARES, INC. AND SUBSIDIARIES

NOTE A Summary of Significant Accounting Policies

CONSOLIDATION

The consolidated financial statements include the accounts of CB Bancshares, Inc. (the Parent Company) and its wholly-owned subsidiaries (the Company): City Bank and its wholly-owned subsidiaries (the Bank); Datatronix Financial Services, Inc. (Datatronix); and O.R.E., Inc. Significant intercompany transactions and balances have been eliminated in consolidation. The Bank owns 50% of Pacific Access Mortgage, LLC, a mortgage brokerage company. The investment is accounted for using the equity method. The consolidated financial statements include all adjustments of a normal and recurring nature, which are, in the opinion of management, necessary for a fair presentation of the financial results for the interim periods.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in financial statements prepared in conformity with generally accepted accounting principles. Accordingly, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Form 10-K for the year ended December 31, 2003.

Results of operations for interim periods are not necessarily indicative of results for the full year.

RECLASSIFICATIONS

Certain amounts in the consolidated financial statements for 2003 have been reclassified to conform with the 2004 presentation. Such reclassifications had no effect on the consolidated net income as previously reported.

NEW ACCOUNTING PRINCIPLES

Financial Accounting Standard Board (FASB) Interpretation No. 46. In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities , an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities (VIEs) as defined. The Interpretation applies immediately to variable interests in VIEs created or obtained after January 31, 2003. For variable interests in VIEs that an enterprise acquired before February 1, 2003, the Interpretation is applicable in the first fiscal year or interim period beginning after June 15, 2003. In December 2003, the FASB revised Interpretation No. 46, which replaced its original interpretation issued in January 2003, and among other things, revised certain effective dates. At March 31, 2004, the Company had no variable interests in a variable interest entity requiring consolidation or disclosure in accordance with the Interpretation.

Table of Contents**NOTE B Loans**

The loan portfolio consisted of the following at the dates indicated:

<u>(in thousands)</u>	<u>March 31, 2004</u>	<u>December 31, 2003</u>	<u>March 31, 2003</u>
Commercial and financial	\$ 253,884	\$ 245,875	\$ 241,751
Real estate:			
Construction	108,683	98,237	47,898
Commercial	440,279	403,946	210,743
Residential	356,144	367,685	413,282
Installment and consumer	179,090	180,064	138,678
	<hr/>	<hr/>	<hr/>
Gross loans	1,338,080	1,295,807	1,052,352
Less:			
Unearned discount	2,435	2,453	1,541
Net deferred loan fees	7,485	7,282	4,178
Allowance for credit losses	28,686	28,490	31,210
	<hr/>	<hr/>	<hr/>
Loans, net	<u>\$ 1,299,474</u>	<u>\$ 1,257,582</u>	<u>\$ 1,015,423</u>

NOTE C Segment Information

The Company's business segments are organized around services and products provided. The segment data presented below was prepared on the same basis of accounting as the consolidated financial statements as described in Note A.

The Company's business segments are defined as Retail Banking, Wholesale Banking, Treasury and All Other. Retail Banking is made up of retail deposits, mortgage banking and consumer lending activities. Wholesale Banking consists of wholesale deposits, commercial real estate lending, corporate lending and the specialized lending functions of the Bank. The Treasury segment is responsible for managing the Company's investment securities portfolio and borrowing. The All Other segment consists of the administrative support of the Bank, transactions of the parent company, CB Bancshares, Inc., and subsidiaries of the Company and the Bank.

Retail banking net interest income is made up of interest income from revolving real estate, residential real estate and consumer loans, partially offset by the interest expense on retail deposits. Wholesale banking net interest income is made up of interest income from commercial, real estate construction, and commercial real estate loans, partially offset by the interest expense on wholesale deposits. Treasury net interest income is derived from the interest income on investment securities the Bank has in its possession, partially offset by the interest expense on short- and long-term borrowings.

Intersegment net interest income is allocated based on the net funding needs of each segment and applying an interest credit or charge based on an internal cost of capital.

Other operating income (expense) is the noninterest income and expense designated to Retail Banking, Wholesale Banking, Treasury, and All Other.

Administrative overhead allocates the noninterest income/(expense) from the All Other non-banking function segment to the other three segments, Retail Banking, Wholesale Banking and Treasury.

Assets are composed of cash, investments, loans, and fixed and other assets. Loan balances and any corresponding allowance for credit losses are allocated based on loan product types. Fixed assets are allocated by location and function within the Company.

Table of Contents

The Company continues to enhance its segment reporting process methodologies. These methodologies assign certain balance sheet and income statement items to the responsible operating segment. This process is dynamic and, unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting equivalent to generally accepted accounting principles. Intersegment income and expense are valued at prices comparable to those for unaffiliated companies.

<u>(in thousands)</u>	<u>Retail</u>	<u>Wholesale</u>	<u>Treasury</u>	<u>All Other</u>	<u>Total</u>
Three months ended March 31, 2004					
Net interest income (loss)	\$ 7,964	\$ 11,652	\$ 1,655	\$ (14)	\$ 21,257
Intersegment net interest income (expense)	216	(1,639)	1,423		
Provision for credit losses	114	386			500
Other operating expense	(1,327)	(3,486)	2,075	(4,359)	(7,097)
Administrative and overhead expense allocation	(1,516)	(1,303)	(171)	2,990	
Income tax expense (benefit)	1,505	1,394	1,435	(476)	3,858
Net income (loss)	3,718	3,444	3,547	(907)	9,802
Total assets	578,764	756,432	482,032	56,295	1,873,523

<u>(in thousands)</u>	<u>Retail</u>	<u>Wholesale</u>	<u>Treasury</u>	<u>All Other</u>	<u>Total</u>
Three months ended March 31, 2003					
Net interest income (loss)	\$ 9,563	\$ 7,655	\$ 1,101	\$ (17)	\$ 18,302
Intersegment net interest income (expense)	114	(496)	382		
Provision for credit losses	440	3,890			4,330
Other operating expense	(898)	(2,748)	(446)	(4,039)	(8,131)
Administrative and overhead expense allocation	(1,755)	(1,361)	(191)	3,307	
Income tax expense (benefit)	2,133	(272)	274	(266)	1,869
Net income (loss)					