

CATHAY GENERAL BANCORP

Form 10-Q

May 10, 2011

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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, 2011

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)

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<b>Delaware</b> (State of other jurisdiction of incorporation or organization)	<b>95-4274680</b> (I.R.S. Employer Identification No.)
<b>777 North Broadway, Los Angeles, California</b> (Address of principal executive offices)	<b>90012</b> (Zip Code)
<b>Registrant's telephone number, including area code: (213) 625-4700</b>	

(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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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, 78,634,462 shares outstanding as of April 29, 2011.

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**CATHAY GENERAL BANCORP AND SUBSIDIARIES**

**1ST QUARTER 2011 REPORT ON FORM 10-Q**

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### **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;

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the soundness of other financial institutions;

real estate market conditions;

our ability to compete with competitors;

increased costs of compliance and other risks associated with changes in regulation and the current regulatory environment, including the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), and the potential for substantial changes in the legal, regulatory, and enforcement framework and oversight applicable to financial institutions in reaction to recent adverse financial market events, including changes pursuant to the Dodd-Frank Act;

the short term and long term impact of the Basel II and the proposed Basel III capital standards of the Basel Committee;

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 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, 2010 (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.

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

	March 31, 2011 (In thousands, except share and per share data)	December 31, 2010
<b>ASSETS</b>		
Cash and due from banks	\$ 87,111	\$ 87,347
Short-term investments and interest bearing deposits	169,963	206,321
Securities purchased under agreements to resell	0	110,000
Securities held-to-maturity (market value of \$1,228,109 in 2011 and \$837,359 in 2010)	1,231,955	840,102
Securities available-for-sale (amortized cost of \$1,545,034 in 2011 and \$2,005,330 in 2010)	1,537,111	2,003,567
Trading securities	3,824	3,818
Loans held for sale	2,388	2,873
Loans	6,894,311	6,868,621
Less: Allowance for loan losses	(241,030)	(245,231)
Unamortized deferred loan fees	(7,827)	(7,621)
Loans, net	6,645,454	6,615,769
Federal Home Loan Bank stock	61,364	63,873
Other real estate owned, net	75,585	77,740
Investments in affordable housing partnerships, net	86,896	88,472
Premises and equipment, net	108,790	109,456
Customers liability on acceptances	22,623	14,014
Accrued interest receivable	33,524	35,382
Goodwill	316,340	316,340
Other intangible assets	15,520	17,044
Other assets	215,961	209,868
Total assets	\$ 10,614,409	\$ 10,801,986
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Deposits		
Non-interest-bearing demand deposits	\$ 960,677	\$ 930,300
Interest-bearing accounts:		
NOW accounts	415,986	418,703
Money market accounts	1,012,324	982,617
Saving accounts	390,679	385,245
Time deposits under \$100,000	1,018,000	1,081,266
Time deposits of \$100,000 or more	3,281,641	3,193,715
Total deposits	7,079,307	6,991,846
Securities sold under agreements to repurchase	1,459,000	1,561,000
Advances from the Federal Home Loan Bank	350,000	550,000
Other borrowings from financial institutions	10,991	8,465

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Other borrowings for affordable housing investments	19,075	19,111
Long-term debt	171,136	171,136
Acceptances outstanding	22,623	14,014
Other liabilities	50,101	50,309
<b>Total liabilities</b>	<b>9,162,233</b>	<b>9,365,881</b>
<b>Commitments and contingencies</b>	<b>0</b>	<b>0</b>
<b>Stockholders' equity</b>		
Preferred stock, 10,000,000 shares authorized, 258,000 issued and outstanding in 2011 and in 2010	248,334	247,455
Common stock, \$0.01 par value; 100,000,000 shares authorized, 82,842,027 issued and 78,634,462 outstanding at March 31, 2011, and 82,739,348 issued and 78,531,783 outstanding at December 31, 2010	828	827
Additional paid-in-capital	764,098	762,509
Accumulated other comprehensive loss, net	(4,592)	(1,022)
Retained earnings	560,797	543,625
Treasury stock, at cost (4,207,565 shares at March 31, 2011, and at December 31, 2010)	(125,736)	(125,736)
<b>Total Cathay General Bancorp stockholders' equity</b>	<b>1,443,729</b>	<b>1,427,658</b>
Noncontrolling Interest	8,447	8,447
<b>Total equity</b>	<b>1,452,176</b>	<b>1,436,105</b>
<b>Total liabilities and equity</b>	<b>\$ 10,614,409</b>	<b>\$ 10,801,986</b>

See accompanying notes to unaudited condensed consolidated financial statements



**Table of Contents****CATHAY GENERAL BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)****(Unaudited)**

	Three months ended March 31,	
	2011	2010
	(In thousands, except share and per share data)	
<b>INTEREST AND DIVIDEND INCOME</b>		
Loan receivable, including loan fees	\$ 90,558	\$ 95,739
Investment securities- taxable	21,854	30,288
Investment securities- nontaxable	1,056	77
Federal Home Loan Bank stock	47	48
Federal funds sold and securities purchased under agreements to resell	41	0
Deposits with banks	221	317
Total interest and dividend income	113,777	126,469
<b>INTEREST EXPENSE</b>		
Time deposits of \$100,000 or more	10,725	15,383
Other deposits	5,720	9,101
Securities sold under agreements to repurchase	16,171	16,312
Advances from Federal Home Loan Bank	4,849	10,039
Long-term debt	1,206	913
Short-term borrowings	1	0
Total interest expense	38,672	51,748
Net interest income before provision for credit losses	75,105	74,721
Provision for credit losses	6,000	84,000
Net interest income/(loss) after provision for credit losses	69,105	(9,279)
 <b>NON-INTEREST INCOME</b>		
Securities gains, net	6,232	3,439
Letters of credit commissions	1,278	959
Depository service fees	1,361	1,357
Other operating income/(loss)	3,755	(971)
Total non-interest income	12,626	4,784
 <b>NON-INTEREST EXPENSE</b>		
Salaries and employee benefits	18,271	15,226
Occupancy expense	3,538	3,838
Computer and equipment expense	2,183	2,013
Professional services expense	3,729	4,639
FDIC and State assessments	4,317	5,144
Marketing expense	695	899
Other real estate owned expense, net	221	3,295
Operations of affordable housing investments , net	1,976	2,113
Amortization of core deposit intangibles	1,481	1,507

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Cost associated with debt redemption	8,811	909
Other operating expense	2,561	4,580
Total non-interest expense	47,783	44,163
Income/(loss) before income tax expense/(benefit)	33,948	(48,658)
Income tax expense/(benefit)	11,734	(23,068)
Net income/(loss)	22,214	(25,590)
Less: net income attributable to noncontrolling interest	(151)	(151)
Net income/(loss) attributable to Cathay General Bancorp	22,063	(25,741)
Dividends on preferred stock	(4,105)	(4,092)
Net income/(loss) available to common stockholders	17,958	(29,833)
Other comprehensive income (loss) , net of tax		
Unrealized holding gain/(loss) arising during the period	(950)	9,495
Less: reclassification adjustments included in net income	2,620	1,446
Total other comprehensive gain/(loss), net of tax	(3,570)	8,049
Total comprehensive income/(loss) attributable to Cathay General Bancorp	\$ 18,493	\$ (17,692)
Net income/(loss) per common share:		
Basic	\$ 0.23	\$ (0.41)
Diluted	\$ 0.23	\$ (0.41)
Cash dividends paid per common share	\$ 0.010	\$ 0.010
Basic average common shares outstanding	78,609,460	72,653,755
Diluted average common shares outstanding	78,635,620	72,653,755
See accompanying notes to unaudited condensed consolidated financial statements.		

**Table of Contents****CATHAY GENERAL BANCORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Cash Flows from Operating Activities</b>		
Net Income /(loss)	\$ 22,214	\$ (25,590)
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Provision for loan losses	6,000	84,000
Provision for losses on other real estate owned	1,979	2,855
Deferred tax liability (benefit)	5,425	(17,131)
Depreciation	1,521	2,071
Net gains on sale and transfer of other real estate owned	(3,605)	(1,368)
Write-downs on venture capital investments	57	199
Gain on sales and calls of securities	(6,232)	(3,439)
(Decrease)/increase in unrealized loss from interest rate swaps	(874)	3,679
Other non-cash interest	(181)	61
Amortization/accretion of security premiums/discounts, net	1,236	1,177
Amortization of intangibles	1,498	1,527
Excess tax short-fall from share-based payment arrangements	234	87
Stock based compensation expense	463	1,137
Decrease in deferred loan fees, net	207	(322)
Decrease in accrued interest receivable	1,858	2,021
(Increase)/decrease in other assets, net	(6,967)	15,806
Increase/(decrease) in other liabilities	298	(2,112)
<b>Net cash provided by operating activities</b>	<b>25,131</b>	<b>64,658</b>
<b>Cash Flows from Investing Activities</b>		
Decrease/(increase) in short-term investments	36,360	(73,047)
Decrease in securities purchased under agreements to resell	110,000	0
Purchase of investment securities available-for-sale	(7,768)	(1,267,803)
Proceeds from maturity and calls of investment securities available-for-sale	0	493,170
Proceeds from sale of investment securities available-for-sale	217,261	45,077
Purchase of mortgage-backed securities available-for-sale	(100,496)	0
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	356,931	438,445
Purchase of investment securities held-to-maturity	(419,460)	(10,000)
Proceeds from maturity, call and prepayment of investment securities held-to-maturity	26,971	9,465
Purchase of trading securities	0	(12,981)
Redemption of Federal Home Loan Bank stock	2,509	0
Net increase in loans	(47,686)	(34,254)
Purchase of premises and equipment	(1,069)	(883)
Proceeds from sale of other real estate owned	16,064	9,739
Net increase in investment in affordable housing	(265)	(1,999)
<b>Net cash provided by/(used in) investing activities</b>	<b>189,352</b>	<b>(405,071)</b>
<b>Cash Flows from Financing Activities</b>		
Net increase/(decrease) in demand deposits, NOW accounts, money market and saving deposits	62,800	(21,856)
Net increase in time deposits	24,839	263,022
Net increase/(decrease) in federal funds purchased and securities sold under agreement to repurchase	(102,000)	2,000
Advances from Federal Home Loan Bank	286,000	78,000

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Repayment of Federal Home Loan Bank borrowings	(486,000)	(143,000)
Cash dividends	(786)	(785)
Issuance of common stock	0	124,924
Cash dividend paid on preferred stock	(3,225)	(3,225)
Proceeds from other borrowings	2,526	6,139
Proceeds from shares issued through Dividend Reinvestment Plan	54	83
Proceeds from exercise of stock options	1,307	0
Excess tax short-fall from share-based payment arrangements	(234)	(87)
Net cash (used in)/ provided by financing activities	(214,719)	305,215
(Decrease)/increase in cash and cash equivalents	(236)	(35,198)
Cash and cash equivalents, beginning of the period	87,347	100,124
Cash and cash equivalents, end of the period	\$ 87,111	\$ 64,926

Supplemental disclosure of cash flow information

Cash paid during the period:

Interest	\$ 40,765	\$ 51,903
Income taxes paid/(refunded)	\$ 21,600	\$ (7,142)
Non-cash investing and financing activities:		
Net change in unrealized holding (loss)/gain on securities available-for-sale, net of tax	\$ (3,571)	\$ 8,049
Loans to facilitate sale of loans	\$ 0	\$ 23,500
Transfers to other real estate owned	\$ 14,035	\$ 51,972
Transfers to other real estate owned from loans held for sale	\$ 2,874	\$ 5,851
Loans transfers from investment to held for sale	\$ 2,388	\$ 0
Loans to facilitate the sale of other real estate owned	\$ 4,625	\$ 0

See accompanying notes to unaudited condensed consolidated financial statements.

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**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 and, together, the Company ), 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, 2011, the Bank operated 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, 2011. 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, 2010.

The preparation of the condensed 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**

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, 2010. Adoption of ASU 2010-06 did not have a significant impact on the Company s consolidated financial statements.

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The FASB issued ASU 2010-20 *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* in July 2010 to provide disclosures that facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes and reasons for those changes in the allowance for credit losses. An entity should provide disclosures on two levels of disaggregation—portfolio segment and class of financing receivable. The disclosure requirements include, among other things, a roll-forward schedule of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 was effective for the entity's financial statements as of December 31, 2010, as related to end of a reporting period disclosure requirement. Disclosures that relate to activity during a reporting period is required for the entity's financial statements that include periods beginning on or after January 1, 2011. See Note 7 to these condensed consolidated financial statements for the required disclosures at March 31, 2011.

The FASB issued ASU 2010-28 *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* in December 2010. ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 was effective on December 15, 2010. Adoption of ASU 2010-28 did not have a significant impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02 *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 clarifies the guidance on creditor's evaluation of whether a restructuring constitutes a troubled debt restructuring. A restructuring constitutes a troubled debt restructuring if it meets both of the following criteria: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 will be effective for interim and annual periods after June 15, 2011, and will be applied retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 is not expected to have a significant impact on the Company's consolidated financial statements.

## **4. Earnings/Loss per Share**

Basic earnings per share exclude 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 loss per common stock share calculations:

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(Dollars in thousands, except share and per share data)	For the three months ended March 31,	
	2011	2010
Net income/(loss) attributable to Cathay General Bancorp	\$ 22,063	(\$ 25,741)
Dividends on preferred stock	(4,105)	(4,092)
<b>Net income/(loss) available to common stockholders</b>	<b>\$ 17,958</b>	<b>(\$ 29,833)</b>
Weighted-average number of common shares outstanding:		
Basic	78,609,460	72,653,755
Diluted effect of weighted-average outstanding common shares equivalents		
Stock Options	26,160	0
 Diluted weighted-average number of common shares outstanding	 78,635,620	 72,653,755
 Average shares of stock options, restricted stock units, and warrants with anti-dilutive effect	 6,198,286	 6,988,181
Earnings/(loss) per common stock share:		
Basic	\$ 0.23	(\$ 0.41)
Diluted	\$ 0.23	(\$ 0.41)

**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, 2011, 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 certain options granted to the Chief Executive Officer of the Company in 2005 and 2008. If such options expire or terminate without having been exercised, any shares not purchased will again be available for future grants or awards. There were no options granted during 2010 and during the first quarter of 2011.

Option compensation expense totaled \$366,000 for the three months ended March 31, 2011, and \$1.1 million for the three months ended March 31, 2010. Stock-based compensation is recognized ratably over the requisite service period for all awards. Unrecognized stock-based compensation expense related to stock options totaled \$1.5 million at March 31, 2011, and is expected to be recognized over the next 1.9 years.

Stock options covering 86,860 shares were exercised during the first quarter of 2011 compared to none in the year of 2010. Cash received totaled \$1.3 million and the aggregate intrinsic value totaled \$172,000 from the exercise of stock options during the first quarter ended March 31, 2011. Fair value of stock options vested was \$2.6 million during the first quarter of 2011 and \$4.8 million during the first quarter of 2010. The table below summarizes stock option activity for the periods indicated:

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	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2010	4,947,348	27.93	3.7	\$ 334
Exercised	(86,860)	15.05		
Forfeited	(481,588)	20.75		
Balance, March 31, 2011	4,378,900	\$ 28.86	3.9	\$ 178
Exercisable, March 31, 2011	4,151,244	\$ 29.15	3.7	\$ 178

In addition to stock options, the Company also grants restricted stock units to eligible employees. On February 21, 2008, restricted stock units for 82,291 shares were granted to eligible employees. Upon vesting of restricted stock units, the Company issued 15,006 shares of common stock at the closing price of \$9.64 per share on February 21, 2010, and 12,633 shares of common stock at the closing price of \$18.79 per share on February 21, 2011. Restricted stock units granted in 2008 have a maximum term of five years and vest in approximately 20% annual increments subject to continued employment with the Company.

In March 2011, the Company again granted restricted stock units of 65,243 shares to eligible employees. The closing price of the Company's common stock on the date of the grant was \$16.14 for the 15,069 restricted stock units granted on March 15, 2011 and \$16.15 for the 50,174 restricted stock units granted on March 23, 2011. These restricted stock units granted in March 2011 are scheduled to vest in March 2013.

The following table presents information relating to the restricted stock units as of March 31, 2011:

	Units
Balance at December 31, 2010	38,960
Granted	65,243
Forfeited	(1,168)
Vested	(12,633)
Balance at March 31, 2011	90,402

The compensation expense recorded related to the restricted stock units above was \$96,000 for the three months ended March 31, 2011, and \$82,000 for the three months ended March 31, 2010. Unrecognized stock-based compensation expense related to restricted stock units was \$1.7 million at March 31, 2011, and is expected to be recognized over the next 2.0 years.

The following table summarizes the tax benefit (short-fall) from share-based payment arrangements:

(Dollars in thousands)	For the three months ended March 31,	
	2011	2010
Benefit/(short-fall) of tax deductions in excess of grant-date fair value	\$ (234)	\$ (87)
Benefit of tax deductions on grant-date fair value	306	87
Total benefit of tax deductions	\$ 72	\$ 0



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The following table reflects the amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of March 31, 2011, and December 31, 2010:

	Amortized Cost	March 31, 2011		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
<b>Securities Held-to-Maturity</b>				
U.S. government sponsored entities	\$ 99,932	\$ 2,272	\$ 0	\$ 102,204
State and municipal securities	129,978	24	5,755	124,247
Mortgage-backed securities	992,077	4,317	4,734	991,660
Other foreign debt securities	9,968	30	0	9,998
Total securities held-to-maturity	\$ 1,231,955	\$ 6,643	\$ 10,489	\$ 1,228,109
<b>Securities Available-for-Sale</b>				
U.S. treasury securities	\$ 125,554	\$ 0	\$ 7,497	\$ 118,057
U.S. government sponsored entities	635,018	187	9,169	626,036
State and municipal securities	1,873	0	143	1,730
Mortgage-backed securities	377,822	10,550	63	388,309
Collateralized mortgage obligations	21,641	630	135	22,136
Asset-backed securities	215	0	4	211
Corporate bonds	316,553	311	5,998	310,866
Mutual funds	4,000	0	88	3,912
Preferred stock of government sponsored entities	569	1,917	0	2,486
Trust preferred securities	22,317	204	12	22,509
Other foreign debt securities	38,004	64	308	37,760
Other equity securities	1,468	1,631	0	3,099
Total securities available-for-sale	\$ 1,545,034	\$ 15,494	\$ 23,417	\$ 1,537,111
Total investment securities	\$ 2,776,989	\$ 22,137	\$ 33,906	\$ 2,765,220

	Amortized Cost	December 31, 2010		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
<b>Securities Held-to-Maturity</b>				
U.S. government sponsored entities	\$ 99,921	\$ 2,639	\$ 0	\$ 102,560
State and municipal securities	130,107	0	8,946	121,161
Mortgage-backed securities	600,107	5,230	1,653	603,684
Other foreign debt securities	9,967	0	13	9,954
Total securities held-to-maturity	\$ 840,102	\$ 7,869	\$ 10,612	\$ 837,359
<b>Securities Available-for-Sale</b>				
U.S. treasury securities	\$ 125,573	\$ 0	\$ 6,745	\$ 118,828
U.S. government sponsored entities	830,269	1,653	6,840	825,082
State and municipal securities	1,875	0	157	1,718

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Mortgage-backed securities	627,574	14,854	123	642,305
Collateralized mortgage obligations	24,719	590	115	25,194
Asset-backed securities	245	0	5	240
Corporate bonds	336,476	1,307	5,792	331,991
Mutual funds	4,000	0	73	3,927
Preferred stock of government sponsored entities	569	150	0	719
Trust preferred securities	14,549	58	170	14,437
Other foreign debt securities	38,013	67	646	37,434
Other equity securities	1,468	224	0	1,692
Total securities available-for-sale	\$ 2,005,330	\$ 18,903	\$ 20,666	\$ 2,003,567
Total investment securities	\$ 2,845,432	\$ 26,772	\$ 31,278	\$ 2,840,926

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The amortized cost and fair value of investment securities at March 31, 2011, 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	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	\$ 59,348	\$ 59,480	\$ 0	\$ 0
Due after one year through five years	418,601	411,005	99,932	102,204
Due after five years through ten years	754,123	744,948	17,628	17,462
Due after ten years (1)	312,962	321,678	1,114,395	1,108,443
<b>Total</b>	<b>\$ 1,545,034</b>	<b>\$ 1,537,111</b>	<b>\$ 1,231,955</b>	<b>\$ 1,228,109</b>

(1) Equity securities are reported in this category

Proceeds from sales and repayments of mortgage-backed securities were \$356.9 million during the first quarter of 2011 compared to \$438.4 million during the same quarter a year ago. Proceeds from sales and repayments of other investment securities were \$217.3 million during the first quarter of 2011 compared to \$45.1 million during the first quarter of 2010. Proceeds from maturity and calls of investment securities were \$27.0 million during the first quarter of 2011 compared to \$502.6 million during the same quarter a year ago. Gains of \$6.2 million and no losses were realized on sales and calls of investment securities during the first quarter of 2011 compared to \$3.4 million in gains and no losses realized for the same quarter a year ago.

The temporarily impaired securities represent 56.9% of the fair value of investment securities as of March 31, 2011. Unrealized losses for securities with unrealized losses for less than twelve months represent 2.1%, and securities with unrealized losses for twelve months or more represent 5.9%, 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 were investment grade as of March 31, 2011, except two whole loan securities with a par amount at March 31, 2011 of \$9.5 million that were rated B and B2 and one corporate note with a principal balance of \$5.0 million was rated BB. At March 31, 2011, 11 issues of securities had unrealized losses for 12 months or longer and 180 issues of securities had unrealized losses of less than 12 months.

At March 31, 2011, management believed the impairment was temporary and, accordingly, no impairment loss has been recognized in our condensed consolidated statements of operations. 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 debt securities that have declined below their cost before their anticipated recovery.

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, 2011, and December 31, 2010:

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	As of March 31, 2011								
	Less than 12 months			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
(Dollars in thousands)									
<b>Securities Held-to-Maturity</b>									
State and municipal securities	\$ 118,178	\$ 5,755	117	\$ 0	\$ 0	0	\$ 118,178	\$ 5,755	117
Mortgage-backed securities	427,835	4,734	12	0	0	0	427,835	4,734	12
Total securities held-to-maturity	\$ 546,013	\$ 10,489	129	\$ 0	\$ 0	0	\$ 546,013	\$ 10,489	129
<b>Securities Available-for-Sale</b>									
U.S. treasury securities	\$ 118,057	\$ 7,497	1	\$ 0	\$ 0	0	\$ 118,057	\$ 7,497	1
U.S. government sponsored entities	575,790	9,169	12	0	0	0	575,790	9,169	12
State and municipal securities	1,730	143	2	0	0	0	1,730	143	2
Mortgage-backed securities	576	5	5	80	1	3	656	6	