

CB BANCSHARES INC/HI  
Form 10-Q  
August 13, 2002

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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 June 30, 2002

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**  
(State of Incorporation)

**99-0197163**  
(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

The number of shares outstanding of each of the registrant's classes of common stock as of July 31, 2002 was:

Class	Outstanding
Common Stock, \$1.00 Par Value	3,998,156 shares

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CB BANCSHARES, INC. AND SUBSIDIARIES

(in thousands of dollars)	June 30, 2002	December 31, 2001	June 30, 2001
<b>Assets</b>			
Cash and due from banks	\$ 43,447	\$ 22,395	\$ 23,894
Interest-bearing deposits in other banks	1,110	1,017	1,010
Federal funds sold	815	10,655	2,515
Investment securities:			
Held-to-maturity	73,396	26,000	
Available-for-sale	231,167	203,563	247,900
Restricted	33,377	32,406	33,524
Loans held for sale	38,023	50,661	54,854
Net loans	1,062,594	1,172,817	1,228,522
Premises and equipment	17,072	17,633	18,566
Other real estate owned	3,216	4,674	3,068
Accrued interest receivable and other assets	52,194	44,219	43,690
<b>Total assets</b>	<b>\$1,556,411</b>	<b>\$1,586,040</b>	<b>\$1,657,543</b>
<b>Liabilities and stockholders equity</b>			
Deposits:			
Noninterest-bearing	\$ 157,745	\$ 160,570	\$ 137,317
Interest-bearing	977,982	977,865	1,036,836
Total deposits	1,135,727	1,138,435	1,174,153
Short-term borrowings	9,150	76,100	91,400
Accrued expenses and other liabilities	24,583	20,599	16,228
Long-term debt	234,415	214,424	244,381
Minority interest in consolidated subsidiary	2,720	2,720	2,720
<b>Total liabilities</b>	<b>1,406,595</b>	<b>1,452,278</b>	<b>1,528,882</b>
Stockholders equity:			
Common stock	3,998	3,506	3,509
Additional paid-in capital	82,149	65,427	65,558
Retained earnings	58,220	65,714	66,276
Unreleased shares to employee stock ownership plan	(1,756)	(1,839)	
Accumulated other comprehensive income (loss), net of tax	7,205	954	(6,682)
<b>Total stockholders equity</b>	<b>149,816</b>	<b>133,762</b>	<b>128,661</b>
<b>Total liabilities and stockholders equity</b>	<b>\$1,556,411</b>	<b>\$1,586,040</b>	<b>\$1,657,543</b>

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See accompanying notes to the consolidated financial statements.

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

(in thousands of dollars, except per share data)	Quarter ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
<b>Interest income:</b>				
Interest and fees on loans	\$ 22,541	\$ 27,576	\$ 46,406	\$ 55,715
Interest and dividends on investment securities:				
Taxable interest income	3,282	4,158	6,164	9,194
Nontaxable interest income	389	388	777	776
Dividends	493	576	973	1,096
Other interest income	15	85	34	263
<b>Total interest income</b>	<b>26,720</b>	<b>32,783</b>	<b>54,354</b>	<b>67,044</b>
<b>Interest expense:</b>				
Deposits	4,634	11,283	9,753	24,369
Short-term borrowings	172	800	483	3,042
Long-term debt	2,876	3,531	5,641	6,662
<b>Total interest expense</b>	<b>7,682</b>	<b>15,614</b>	<b>15,877</b>	<b>34,073</b>
Net interest income	19,038	17,169	38,477	32,971
Provision for credit losses	4,102	2,271	8,970	5,021
Net interest income after provision for credit losses	14,936	14,898	29,507	27,950
<b>Noninterest income:</b>				
Service charges on deposit accounts	1,069	940	2,097	1,774
Other service charges and fees	1,618	1,259	3,174	2,404
Net realized gains (losses) on sales of securities	(68)	229	(104)	616
Net gains on sales of loans	208	250	719	412
Other	933	571	1,833	1,287
<b>Total noninterest income</b>	<b>3,760</b>	<b>3,249</b>	<b>7,719</b>	<b>6,493</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	6,501	5,997	13,070	11,994
Net occupancy expense	1,568	1,608	3,140	3,200
Equipment expense	765	804	1,560	1,620
Other	4,487	4,759	8,899	8,603
<b>Total noninterest expense</b>	<b>13,321</b>	<b>13,168</b>	<b>26,669</b>	<b>25,417</b>
Income before income taxes	5,375	4,979	10,557	9,026
Income tax expense	1,754	1,839	3,400	3,085
<b>Net income</b>	<b>\$ 3,621</b>	<b>\$ 3,140</b>	<b>\$ 7,157</b>	<b>\$ 5,941</b>
<b>Per share data:</b>				
Basic	\$ 0.93	\$ 0.82	\$ 1.86	\$ 1.54

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<b>Diluted</b>	<b>\$ 0.92</b>	\$ 0.81	<b>\$ 1.83</b>	\$ 1.53
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See accompanying notes to the consolidated financial statements.

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**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 Employee Stock Ownership Plan	Accumulated Other Comprehensive Income	Total
<b>Balance at January 1, 2002</b>	<b>\$3,506</b>	<b>\$65,427</b>	<b>\$ 65,714</b>	<b>\$ (1,839)</b>	<b>\$ 954</b>	<b>\$133,762</b>
<b>Comprehensive income</b>						
Net income			7,157			7,157
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					6,251	6,251
<b>Comprehensive income subtotal</b>			<b>7,157</b>		<b>6,251</b>	<b>13,408</b>
<b>Cash dividends (\$0.22 per share)</b>			<b>(783)</b>			<b>(783)</b>
<b>Options exercised</b>	<b>154</b>	<b>4,153</b>				<b>4,307</b>
<b>Stock dividend</b>	<b>362</b>	<b>13,448</b>	<b>(13,868)</b>			<b>(58)</b>
<b>Cancelled and retired shares</b>	<b>(24)</b>	<b>(879)</b>				<b>(903)</b>
<b>ESOP shares</b>				<b>83</b>		<b>83</b>
<b>Balance at June 30, 2002</b>	<b>\$3,998</b>	<b>\$82,149</b>	<b>\$ 58,220</b>	<b>\$ (1,756)</b>	<b>\$ 7,205</b>	<b>\$149,816</b>
(in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Unreleased Shares to Employee Stock Ownership Plan	Accumulated Other Comprehensive Income	Total
<b>Balance at January 1, 2001</b>	<b>\$ 3,189</b>	<b>\$54,594</b>	<b>\$ 72,284</b>	<b>\$</b>	<b>\$ (6,905)</b>	<b>\$123,162</b>
<b>Comprehensive income</b>						
Net income			5,941			5,941
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					223	223
<b>Comprehensive income subtotal</b>			<b>5,941</b>		<b>223</b>	<b>6,164</b>
<b>Cash dividends (\$0.21 per share)</b>			<b>(670)</b>			<b>(670)</b>
<b>Options exercised</b>	<b>4</b>	<b>119</b>				<b>123</b>
<b>Stock dividend</b>	<b>318</b>	<b>10,907</b>	<b>(11,279)</b>			<b>(54)</b>
<b>Cancelled and retired shares</b>	<b>(2)</b>	<b>(62)</b>				<b>(64)</b>
<b>Balance at June 30, 2001</b>	<b>\$ 3,509</b>	<b>\$65,558</b>	<b>\$ 66,276</b>	<b>\$</b>	<b>\$ (6,682)</b>	<b>\$128,661</b>

See accompanying notes to the consolidated financial statements.





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CB BANCSHARES, INC. AND SUBSIDIARIES

	Six months ended June 30,	
	2002	2001
(in thousands of dollars)		
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,157	\$ 5,941
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	8,970	5,021
Net realized (gains) losses on sale of securities	104	(616)
Depreciation and amortization	1,677	1,474
Deferred income taxes	222	120
Decrease in accrued interest receivable	248	832
Decrease in accrued interest payable	(308)	(3,031)
Loans originated for sale	(86,989)	(84,682)
Sale of loans held for sale	98,908	63,936
Increase in other assets	(8,223)	(686)
Increase (decrease) in income taxes payable	1,364	(1,102)
Decrease in other liabilities	(1,069)	(656)
Other	896	(148)
Net cash provided by (used in) operating activities	<u>22,957</u>	<u>(13,597)</u>
<b>Cash flows from investing activities:</b>		
Net decrease (increase) in interest-bearing deposits in other banks	(93)	48
Net decrease (increase) in federal funds sold	9,840	(1,905)
Purchase of available-for-sale securities	(68,199)	(50)
Proceeds from sales of available-for-sale securities	29,000	33,815
Proceeds from maturities of available-for-sale securities	21,382	17,273
Purchase of FHLB Stock	(971)	(1,094)
Purchase of held-to-maturity securities	(47,532)	
Net loan originations over principal repayments	99,826	12,781
Capital expenditures	(845)	(1,959)
Proceeds from sales of foreclosed assets	2,708	4,170
Net cash provided by investing activities	<u>45,116</u>	<u>63,079</u>
<b>Cash flows from financing activities:</b>		
Net decrease in deposits	(2,708)	(44,333)
Net decrease in short-term borrowings	(66,950)	(79,300)
Proceeds from long-term debt	40,000	95,000
Principal payments on long-term debt	(20,009)	(32,182)
Net decrease in minority interest in consolidated subsidiary		(4,280)
Cash dividends paid	(783)	(670)
Stock options exercised	4,307	123
Cash in lieu payments on stock dividend	(58)	(54)
Unreleased ESOP shares	83	
Stock repurchase	(903)	(64)
Net cash used in financing activities	<u>(47,021)</u>	<u>(65,760)</u>

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Increase (decrease) in cash and due from banks	<b>21,052</b>	(16,278)
Cash and due from banks at beginning of period	<b>22,395</b>	40,172
	<b>_____</b>	<b>_____</b>
Cash and due from banks at end of period	<b>\$ 43,447</b>	\$ 23,894
	<b>_____</b>	<b>_____</b>
Supplemental schedule of non-cash investing activities:		
Interest paid on deposits and other borrowings	<b>\$ 16,185</b>	\$ 37,103
Income taxes paid	<b>\$ 2,000</b>	\$ 4,752
	<b>_____</b>	<b>_____</b>

See accompanying notes to the consolidated financial statements.

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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.; 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 accounting principles generally accepted in the United States of America. 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, 2001.

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 2001 have been reclassified to conform with the 2002 presentation. Such reclassifications had no effect on the consolidated net income as previously reported.

**NOTE B Loans**

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

(in thousands of dollars)	June 30, 2002	December 31, 2001	June 30, 2001
Commercial and financial	\$ 210,058	\$ 229,824	\$ 246,730
Real estate:			
Construction	45,306	52,750	28,650
Commercial	186,158	190,328	194,872
Residential	513,901	588,525	659,279
Installment and consumer	137,851	135,901	122,266
Gross loans	<u>1,093,274</u>	<u>1,197,328</u>	<u>1,251,797</u>
Less:			
Unearned discount	848	108	4
Net deferred loan fees	4,438	4,939	5,457
Allowance for credit losses	<u>25,394</u>	<u>19,464</u>	<u>17,814</u>
Loans, net	<u>\$ 1,062,594</u>	<u>\$ 1,172,817</u>	<u>\$ 1,228,522</u>

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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 described in Note A. Intersegment income and expense are valued at prices comparable to those for unaffiliated companies.

(in thousands)	Retail	Wholesale	Treasury	All Other	Total
<b>Six months ended June 30, 2002</b>					
Net interest income	\$ 22,117	\$ 14,590	\$ 1,824	\$ (54)	\$ 38,477
Intersegment net interest income (expense)	175	(2,072)	1,897		
Provision for credit losses	1,160	7,810			8,970
Noninterest income (expense)	(4,374)	(5,752)	(981)	(7,843)	(18,950)
Administrative and overhead expense allocation	(3,664)	(2,554)	(444)	6,662	
Income tax expense (benefit)	4,134	(1,136)	725	(323)	3,400
Net income (loss)	8,960	(2,462)	1,571	(912)	7,157
Total assets	702,864	415,973	385,980	51,594	1,556,411

(in thousands)	Retail	Wholesale	Treasury	All Other	Total
<b>Six months ended June 30, 2001</b>					
Net interest income	\$ 16,532	\$ 14,809	\$ 1,625	\$ 5	\$ 32,971
Intersegment net interest income (expense)	361	(1,698)	1,337		
Provision for credit losses	1,084	3,937			5,021
Noninterest income (expense)	(5,236)	(5,029)	(672)	(7,987)	(18,924)
Administrative and overhead expense allocation	(3,535)	(2,799)	(605)	6,939	
Income tax expense (benefit)	2,384	456	571	(326)	3,085
Net income (loss)	4,654	890	1,114	(717)	5,941
Total assets	839,357	462,475	313,539	42,172	1,657,543

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**NOTE D Earnings Per Share Calculation**

(in thousands, except number of shares and per share data)	Quarter ended June 30,					
	2002			2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic:</b>						
Net income	\$ 3,621	3,875,236	\$ 0.93	\$ 3,140	3,810,890	\$ 0.82
<b>Effect of dilutive securities -</b>						
Stock incentive plan options		40,050	0.01		42,625	0.01
<b>Diluted:</b>						
Net income and assumed conversions	\$ 3,621	3,915,286	\$ 0.92	\$ 3,140	3,853,515	\$ 0.81
<b>Six months ended June 30,</b>						
(in thousands, except number of shares and per share data)	2002			2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic:</b>						
Net income	\$ 7,157	3,841,037	\$ 1.86	\$ 5,941	3,868,214	\$ 1.54
<b>Effect of dilutive securities -</b>						
Stock incentive plan options						