EAST WEST BANCORP INC
Form 10-Q
August 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

or

o 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)

Delaware	**95-4703316**
(State or other jurisdiction of incorporation or organization)	(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 regis–trant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filed, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Number of shares outstanding of the issuer s common stock on the latest practicable date: 60,850,096 shares of common stock as of July 31, 2007.

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Forward-Looking Statements

Certain matters discussed in this 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, operating results 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 as a result from:

- effect of interest rate and currency exchange fluctuations;
- competition in the financial services market for both loans and deposits;
- our ability to incorporate acquisitions into our operations;
- credit quality;
- the effect of regulatory and legislative action; and
- regional and general economic conditions.

For a discussion of some of the other factors that might cause such differences, see the Company s 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.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 190,538	$ 192,559
Securities purchased under resale agreements	200,000	100,000
Investment securities available-for-sale, at fair value (with amortized cost of $1,799,770 in 2007 and $1,663,505 in 2006)	1,784,870	1,647,080
Loans receivable, net of allowance for loan losses of $77,280 in 2007 and $78,201 in 2006	7,949,179	8,182,172
Investment in Federal Home Loan Bank stock, at cost	55,907	77,469
Investment in Federal Reserve Bank stock, at cost	18,430	17,830
Other real estate owned, net	622	2,786
Investment in affordable housing partnerships	43,674	36,564
Premises and equipment, net	44,234	43,922
Due from customers on acceptances	15,147	8,134
Premiums on deposits acquired, net	17,326	20,383
Goodwill	244,263	244,259
Cash surrender value of life insurance policies	96,564	90,598
Accrued interest receivable and other assets	132,316	121,264
Deferred tax assets	36,287	38,691
TOTAL	**$ 10,829,357**	**$ 10,823,711**
LIABILITIES AND STOCKHOLDERS EQUITY		
Customer deposit accounts:		
Noninterest-bearing	$ 1,306,391	$ 1,353,734
Interest-bearing	5,840,661	5,881,308
Total deposits	7,147,052	7,235,042
Federal funds purchased	159,000	151,000
Federal Home Loan Bank advances	1,164,858	1,136,866
Securities sold under repurchase agreements	975,000	975,000
Notes payable	15,952	11,379
Bank acceptances outstanding	15,147	8,134
Accrued interest payable, accrued expenses and other liabilities	92,535	102,877
Long-term debt	204,642	184,023
Total liabilities	9,774,186	9,804,321
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS EQUITY		
Common stock (par value of $0.001 per share) Authorized 200,000,000 shares Issued 67,068,809 shares in 2007 and 66,400,417 shares in 2006 Outstanding 60,847,943 shares in 2007 and 61,431,278 shares in 2006	67	66
Additional paid in capital	561,595	544,469
Retained earnings	590,975	525,247
Treasury stock, at cost 6,220,866 shares in 2007 and 4,969,139 shares in 2006	(88,928)	(40,305)

Accumulated other comprehensive loss, net of tax	(8,538)	(10,087)
Total stockholders equity	1,055,171	1,019,390
TOTAL	**$ 10,829,357**	**$ 10,823,711**

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
INTEREST AND DIVIDEND INCOME				
Loans receivable, including fees	$ 158,844	$ 143,426	$ 317,007	$ 269,297
Investment securities available-for-sale	23,370	12,949	46,270	22,164
Securities purchased under resale agreements	3,943	1,896	7,729	3,243
Investment in Federal Home Loan Bank stock	668	646	1,629	1,208
Investment in Federal Reserve Bank stock	272	218	539	402
Short-term investments	117	113	217	236
Total interest and dividend income	187,214	159,248	373,391	296,550
INTEREST EXPENSE				
Customer deposit accounts	61,124	49,939	120,086	88,828
Federal Home Loan Bank advances	12,514	8,199	27,380	16,907
Securities sold under repurchase agreements	9,018	5,005	17,412	7,882
Long-term debt	3,752	3,253	7,134	5,914
Federal funds purchased	1,877	1,208	3,847	2,327
Total interest expense	88,285	67,604	175,859	121,858
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	98,929	91,644	197,532	174,692
PROVISION FOR LOAN LOSSES		1,333		4,666
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	98,929	90,311	197,532	170,026
NONINTEREST INCOME				
Branch fees	3,404	2,890	6,831	5,429
Letters of credit fees and commissions	2,633	2,159	4,986	4,331
Ancillary loan fees	1,487	1,127	2,767	1,906
Net gain on sales of investment securities available-for-sale	918	145	2,446	1,861
Income from life insurance policies	1,058	916	2,032	1,812
Income from secondary market activities	86	189	1,024	373
Net gain on sale of real estate owned			1,344	88
Net gain on disposal of fixed assets	312		312	
Other operating income	904	689	1,555	1,173
Total noninterest income	10,802	8,115	23,297	16,973
NONINTEREST EXPENSE				
Compensation and employee benefits	20,648	15,831	41,430	32,000
Occupancy and equipment expense	6,046	5,339	11,927	10,116
Deposit-related expenses	1,862	2,642	3,549	4,655
Amortization of premiums on deposits acquired	1,525	1,852	3,057	3,617
Amortization of investments in affordable housing partnerships	1,236	1,461	2,504	2,726
Data processing	1,070	1,028	2,052	1,788
Deposit insurance premiums and regulatory assessments	324	366	671	682
Other operating expenses	10,552	10,013	20,391	19,739
Total noninterest expense	43,263	38,532	85,581	75,323
INCOME BEFORE PROVISION FOR INCOME TAXES	66,468	59,894	135,248	111,676
PROVISION FOR INCOME TAXES	25,978	23,249	52,662	42,980
NET INCOME	**$ 40,490**	**$ 36,645**	**$ 82,586**	**$ 68,696**
EARNINGS PER SHARE				
BASIC	$ 0.67	$ 0.61	$ 1.36	$ 1.17
DILUTED	$ 0.66	$ 0.59	$ 1.34	$ 1.15
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				

BASIC	60,381	60,270	60,515	58,538
DILUTED	61,346	61,619	61,523	59,956

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)

	Common Stock	Additional Paid In Capital	Retained Earnings	Deferred Compensation	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Comprehensive Income	Total Stockholders Equity
BALANCE, JANUARY 1, 2006	**$ 61**	**$ 389,004**	**$ 393,846**	**$ (8,242)**	**$ (37,905)**	**$ (2,626)**		**$ 734,138**
Comprehensive income								
Net income for the period			68,696				$ 68,696	68,696
Net unrealized (loss) on investment securities available-for-sale						(8,666)	(8,666)	(8,666)
Total comprehensive income							$ 60,030	
Elimination of deferred compensation pursuant to adoption of SFAS No. 123(R)		(8,242)		8,242				
Stock compensation costs		2,718						2,718
Tax benefit from stock option exercises		6,945						6,945
Tax benefit from vested restricted stock		543						543
Issuance of 572,716 shares pursuant to various stock plans and agreements	1	5,279						5,280
Issuance of 3,647,440 shares pursuant to Standard Bank acquisition	4	133,845						133,849
Issuance of 2,658 shares to Standard Bank employees		105						105
Cancellation of 27,472 shares due to forfeitures of issued restricted stock		935			(935)			
Dividends paid on common stock			(5,866)					(5,866)
BALANCE, JUNE 30, 2006	**$ 66**	**$ 531,132**	**$ 456,676**	**$**	**$ (38,840)**	**$ (11,292)**		**$ 937,742**
BALANCE, JANUARY 1, 2007	**$ 66**	**$ 544,469**	**$ 525,247**	**$**	**$ (40,305)**	**$ (10,087)**		**$ 1,019,390**
Comprehensive income								
Net income for the period			82,586				$ 82,586	82,586
Net unrealized gain on investment securities available-for-sale						1,549	1,549	1,549
Total comprehensive income							$ 84,135	
Cumulative effect from the adoption of FASB Interpretation No. 48			(4,628)					(4,628)
Stock compensation costs		3,150						3,150
Tax benefit from stock option exercises		6,071						6,071

Tax benefit from vested restricted stock		184					184
Issuance of 668,392 shares pursuant to various stock plans and agreements	1	5,708					5,709
Cancellation of 54,980 shares due to forfeitures of issued restricted stock		2,013			(2,013)		
Purchase of 21,747 shares of treasury stock due to the vesting of restricted stock					(795)		(795)
Purchase of 1,175,000 shares of treasury stock pursuant to the Stock Repurchase Program					(45,815)		(45,815)
Dividends paid on common stock			(12,230)				(12,230)
BALANCE, JUNE 30, 2007	**$ 67**	**$ 561,595**	**$ 590,975**	**$**	**$ (88,928)**	**$ (8,538)**	**$ 1,055,171**

	Six Months Ended June 30, 2007	2006
	(In thousands)	
Disclosure of reclassification amounts:		
Unrealized holding gain (loss) on securities arising during the period, net of tax (expense) benefit of $(2,149) in 2007 and $5,493 in 2006	$ 2,968	$ (7,587)
Less: Reclassification adjustment for gain (loss) included in net income, net of tax (expense) of $1,027 in 2007 and $782 in 2006	(1,419)	(1,079)
Net unrealized gain (loss) on securities, net of tax (expense) benefit of $(1,122) in 2007 and $6,275 in 2006	$ 1,549	$ (8,666)

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)

	Six Months Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 82,586	$ 68,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,430	5,720
Stock compensation costs	3,150	2,718
Deferred taxes	(5,751)	(7,331)
Provision for loan losses		4,666
Net gain on sales of investment securities, loans and other assets	(4,191)	(2,278)
Federal Home Loan Bank stock dividends	(1,962)	(1,299)
Originations of loans held for sale	(21,938)	(10,587)
Proceeds from sale of loans held for sale	21,939	10,593
Tax benefit from stock option exercised	(6,071)	(6,945)
Tax benefit from vested restricted stock	(184)	(543)
Net change in accrued interest receivable and other assets	(17,952)	(17,103)
Net change in accrued interest payable, accrued expenses, and other liabilities	2,823	13,053
Total adjustments	(21,707)	(9,336)
Net cash provided by operating activities	60,879	59,360
CASH FLOWS FROM INVESTING ACTIVITIES		
Net loan originations	(502,123)	(925,738)
Purchases of:		
Securities purchased under resale agreements	(100,000)	(50,000)
Investment securities available-for-sale	(394,758)	(982,533)
Federal Home Loan Bank stock	(8,243)	(11,823)
Federal Reserve Bank stock	(600)	(4,915)
Premises and equipment	(5,340)	(4,720)
Short-term investments	(1,537)	
Proceeds from unsettled securities acquired		225,616
Proceeds from sale of:		
Investment securities available-for-sale	206,987	116,587
Loans receivable	16,057	4,526
Other real estate owned	4,130	387
Premises and equipment	1,212	41
Maturity of interest-bearing deposits in other banks		396
Repayments, maturity and redemption of investment securities available-for-sale	773,455	704,118
Redemption of Federal Home Loan Bank stock	31,767	17,837
Cash obtained from acquisitions, net of cash paid		98,351
Net cash provided by (used in) investing activities	21,007	(811,870)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(87,990)	139,413
Net increase in federal funds purchased	8,000	12,500
Net increase in Federal Home Loan Bank advances	28,000	154,000
Repayment of notes payable on affordable housing investments	(5,041)	(4,187)
Proceeds from securities sold under repurchase agreements		400,000
Proceeds from issuance of long-term debt	20,000	30,000
Proceeds from issuance of common stock pursuant to various stock plans and agreements	5,709	5,279
Tax benefit from stock option exercised	6,071	6,945
Tax benefit from vested restricted stock	184	543
Dividends paid on common stock	(12,230)	(5,866)
Purchase of treasury shares pursuant to stock repurchase program and vesting of restricted stock	(46,610)	
Net cash (used in) provided by financing activities	(83,907)	738,627

NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,021)	(13,883)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	192,559	151,192
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 190,538	$ 137,309
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 178,728	$ 122,767
Income tax payments, net of refunds	59,803	35,443
Noncash investing and financing activities:		
Guaranteed mortgage loan securitizations	721,787	334,495
Affordable housing investment financed through notes payable	9,613	
Real estate acquired through foreclosure	622	2,786
Issuance of common stock purchase pursuant to acquisition		133,849
Issuance of common stock to employees		105

See accompanying notes to condensed consolidated financial statements.

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EAST WEST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Six Months Ended June 30, 2007 and 2006
(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of East West Bancorp, Inc. (referred to herein on an unconsolidated basis as East West and on a consolidated basis as the Company) and its wholly owned subsidiaries, East West Bank and subsidiaries (the Bank) and East West Insurance Services, Inc. Intercompany transactions and accounts have been eliminated in consolidation. East West also has eight wholly-owned subsidiaries that are statutory business trusts (the Trusts). In accordance with Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities*, the Trusts are not consolidated into the accounts of East West Bancorp, Inc.

The interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America (GAAP), are unaudited and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the six months ended June 30, 2007 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company s annual report on Form 10-K for the year ended December 31, 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 156, *Accounting for Servicing of Financial Assets*, which provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity s exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. SFAS No. 156 is effective as of the beginning of an entity s first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. The Company adopted SFAS No. 156 on January 1, 2007. The adoption did not have a material impact on the Company s consolidated financial statements. The Company has elected not to fair value servicing assets and liabilities as of each reporting period as permitted by SFAS No. 156, but instead continue to amortize servicing assets and liabilities in accordance with current practice.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) which supplements SFAS No. 109, *Accounting for Income Taxes*, by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions with respect to positions taken or expected to be taken in income tax returns. Specifically, the Interpretation requires that the tax effects of a position be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to economic benefits of a tax position. If a tax position is not considered more- likely-than-not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment would be recorded directly to retained earnings in the period of adoption and reported as a change in accounting principle. FIN 48 is effective for fiscal years beginning after December 15, 2006. Pursuant to the adoption of FIN 48 on January 1, 2007, the Company recorded a net decrease to retained earnings of $4.6 million related to the measurement of a position that the Company had taken with respect to the tax treatment of regulated investment companies (RICs). See Notes 7 and 9 to the condensed consolidated financial statements presented elsewhere herein.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Quantifying Financial Misstatements*, which expresses the Staff s views regarding the process of quantifying financial statement misstatements. Registrants are required to quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The techniques most commonly used in practice to accumulate and quantify misstatements are generally referred to as the rollover (current year income statement perspective) and iron curtain (current year balance sheet perspective) approaches. The financial statements would require adjustment when either approach results in quantifying a misstatement that is material, after considering all relevant quantitative and qualitative factors. This guidance did not have any impact on the Company s financial condition and results of operations.

In September 2006, the Emerging Issues Task Force (EITF) issued EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* which requires employers to recognize an obligation associated with endorsement split-dollar life insurance arrangements that extend into the employee s postretirement period. EITF 06-4 is effective for financial statements issued for fiscal years beginning after December 31, 2007. The adoption of this statement is not expected to have a material impact to the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides a single definition of fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands required disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 12, 2007, and interim periods within those years. The provisions of SFAS No. 157 should be applied on a prospective basis. The Company is currently evaluating the impact that this statement will have on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires employers to fully recognize obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The provisions of SFAS No. 158 require employers to (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize changes in the funded status in the year in which the changes occur through comprehensive income in stockholders equity. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The Company adopted this statement on December 31, 2006. The adoption did not have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. SFAS No. 159 would allow the Company a one-time irrevocable election to measure certain financial assets and liabilities on the balance sheet at fair value and report the unrealized gains and losses on the elected items in earnings at each subsequent reporting date. This standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company s choice to use fair value on its earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management does not expect this guidance to have a material effect on the Company s financial condition and results of operations.

3. STOCK-BASED COMPENSATION

The Company issues stock options and restricted stock to employees under share-based compensation plans. The Company adopted SFAS No. 123(R), *Share-Based Payment,* on January 1, 2006 using the modified prospective method. Under this method, the provisions of SFAS No. 123(R) are applied to new awards and to awards modified, repurchased or canceled after December 31, 2005 and to awards outstanding on December 31, 2005 for which requisite service has not yet been rendered. SFAS No. 123(R) requires companies to account for stock options using the fair value method, which generally results in compensation expense recognition. Prior to December 31, 2005, the Company accounted for its fixed stock options using the intrinsic-value method, as prescribed in Accounting Principles Board (APB) Opinion No. 25. Accordingly, no stock option expense was recorded in periods prior to December 31, 2005.

During the three and six months ended June 30, 2007, total combined compensation cost recognized in the consolidated statements of income related to stock options and restricted stock awards amounted to $1.7 million and $3.1 million, respectively, with their related tax benefits of $698 thousand and $1.3 million, respectively. During the three and six months ended June 30, 2006, total compensation cost recognized in the consolidated statements of income related to stock options and restricted stock awards amounted to $1.3 million and $2.7 million, respectively, with their related tax benefits of $530 thousand and $1.1 million, respectively.

Stock Options

The Company issues fixed stock options to certain employees, officers, and directors. Stock options are issued at the current market price on the date of grant with a three-year or four-year vesting period and contractual terms of 7 years. Stock options issued prior to July 2002 had contractual terms of 10 years.

A summary of activity for the Company s stock options as of and for the six months ended June 30, 2007 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at beginning of period	2,608,171	$ 18.02		
Granted	200,963	38.72		
Exercised	(482,610)	9.34		
Forfeited	(27,733)	37.23		
Outstanding at end of period	2,298,791	$ 21.42	3.77 years	$ 40,175
Vested or expected to vest	2,253,634	$ 21.11	3.73 years	$ 40,075
Exercisable at end of period	1,681,462	$ 15.70	3.03 years	$ 38,971

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Expected term(1)	4 years	4 years	4 years	4 years
Expected volatility(2)	23.8 %	27.8 %	24.1 %	27.8 %
Expected dividend yield(3)	1.1 %	0.6 %	1.1 %	0.6 %
Risk-free interest rate(4)	4.8 %	4.8 %	4.5 %	4.7 %

(1) The expected term (estimated period of time outstanding) of stock options granted was estimated using the historical exercise behavior of employees.

(2) The expected volatility was based on historical volatility for a period equal to the stock option s expected term.

(3) The expected dividend yield is based on the Company s prevailing dividend rate at the time of grant.

(4) The risk-free rate is based on the U.S. Treasury strips in effect at the time of grant equal to the stock option s expected term.

During the three and six months ended June 30, 2007 and 2006, information related to stock options is presented as follows:

	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Weighted average fair value of stock options granted during the period	$ 9.21	$ 10.91	$ 9.27	$ 10.05
Total intrinsic value of options exercised (in thousands)	$ 8,113	$ 7,583	$ 14,439	$ 16,517
Total fair value of options vested (in thousands)	$ 41	$ 41	$ 662	$ 871

As of June 30, 2007, total unrecognized compensation cost related to stock options amounted to $4.5 million. The cost is expected to be recognized over a weighted average period of 3.1 years.

Restricted Stock

In addition to stock options, the Company also grants restricted stock awards to directors, certain officers and employees. The restricted shares awarded become fully vested after three to five years of continued employment from the date of grant. The Company becomes entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted shares when the restrictions are released and the shares are issued. Restricted shares are forfeited if officers and employees terminate prior to the lapsing of restrictions. The Company records forfeitures of restricted stock as treasury share repurchases.

A summary of the activity for restricted stock as of June 30, 2007, including changes during the six months then ended, is presented below:

	Shares	**Weighted Average Price**
Outstanding at beginning of period	531,292	$ 35.46
Granted	149,712	38.71
Vested	(49,976)	27.79
Forfeited	(54,980)	36.58
Outstanding at end of period	576,048	$ 36.87

The weighted average fair values of restricted stock awards granted during the six months ended June 30, 2007 and 2006 were $38.71 and $36.28, respectively.

The Company also grants performance restricted stock with two-year cliff vesting to an executive officer. The number of shares that the executive will receive under these stock awards will ultimately depend on the Company s achievement of specified performance targets over specific two-year performance periods. At the end of each performance period, the number of stock awards issued will be determined by adjusting upward or downward from the target amount of shares in a range approximately between 25% and 125%. The final performance percentages on which the payouts will be based, considering performance metrics established for the performance periods, will be determined by the Board of Directors or a committee of the Board. If the Company performs below its performance targets, the Board or the committee may, at its discretion, choose not to award any shares. Shares of stock, if any, will be issued following the end of each performance period two years from the date of grant. Compensation costs are accrued over the service period and are based on the probable outcome of the performance condition. The maximum number of shares subject to these stock awards varies for each grant representing a maximum total of 86,091 shares to date.

4. BUSINESS COMBINATIONS

The Company has completed several business acquisitions that have all been accounted for using the purchase method of accounting. Accordingly all assets and liabilities were adjusted to and recorded at their estimated fair values as of the acquisition date. The excess of purchase price over fair value of net assets acquired, if identifiable, was recorded as a premium on purchased deposits, and if not identifiable, was recorded as goodwill. The estimated tax effect of differences between tax bases and market values has been reflected in deferred income taxes. The results of operations of the acquired entities have been included in the Company s consolidated financial statements from the date of acquisition.

At the close of business on March 17, 2006, the Company completed the acquisition of Standard Bank, a federal savings bank headquartered in Monterey Park, California. The purchase price was $200.3 million which was comprised of $66.4 million in cash and 3,647,440 shares of East West Bancorp, Inc. common stock. The Company recorded total goodwill of $100.9 million and core deposit premium of $8.6 million for this transaction.

The following table provides detailed information on the acquisition of Standard Bank in March 2006:

	Standard Bank (In thousands)
Cash and cash equivalents	$ 165,834
Loans receivable	487,110
Premises and equipment	3,211
Core deposit premium	8,648
Goodwill	100,893
Other assets	239,485
Total assets acquired	1,005,181
Deposits	728,994
Other liabilities	75,915
Total liabilities assumed	804,909
Net assets acquired	$ 200,272

The pro forma combined amounts presented below give effect to the acquisition of Standard Bank as if this transaction had been completed as of the beginning of the period. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable period presented, nor is it necessarily indicative of the results of operations in future periods.

	(Pro Forma) Six Months Ended June 30, 2006(1)
Net interest income	$ 178,796
Provision for loan losses	(5,866)
Noninterest income	6,801
Noninterest expense	(77,587)
Income before provision for income taxes	102,144
Provision for income taxes	(38,972)
Net income	$ 63,172
EARNINGS PER SHARE	
BASIC	$ 1.05
DILUTED	$ 1.03
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	
BASIC	60,070
DILUTED	61,488

(1) The pro forma results of operations for the six months ended June 30, 2006 includes $10.3 million in net realized losses on investment securities that were sold by Standard Bank during the first quarter of 2006. Further, the pro forma results of operations for the six months ended June 30, 2006 reflect interest expense related to junior subordinated debt amounting to $30.0 million that was issued in connection with the acquisition of Standard Bank as if this debt instrument was issued at the beginning of the period.

5. SECURITIES PURCHASED UNDER RESALE AGREEMENTS

On January 5, 2007, the Company entered into a new long-term transaction involving the purchase of securities under a resale agreement (resale agreement) totaling $100.0 million. The resale agreement has a term of ten years with an interest rate that is fixed at 8.00% for the first two years and thereafter becomes floating rate subject to a switch condition if the three-month Libor rate falls below 5.00%. If the three-month Libor rate falls below 5.00% after two years, the quarterly floating rate will be based on a specified interest rate. If the three-month Libor rate does not fall below 5.00% after the first two years, the interest rate on this resale agreement will continue to be fixed at 8.00% until the switch condition becomes applicable. Once the switch condition applies, the quarterly floating rate calculation basis will be used for the remainder of the term. The counterparty has the right to a quarterly call after the first two years. The collateral for this resale agreement consists of mortgage-backed securities and debt securities held in safekeeping by a third party custodian.

On May 17, 2007, the Company entered into a new long-term resale agreement totaling $50.0 million. The resale agreement has a term of fifteen years with an interest rate that is fixed at 10.00% for the first two years and thereafter is subject to a quarterly floating rate calculation basis for the remainder of the term. The counterparty has the right to a quarterly call after the first two years. The collateral for this resale agreement consists of U.S. government sponsored enterprise mortgage-backed securities and debt securities held in safekeeping by a third party custodian. This resale agreement replaced a security in the amount of $50.0 million that was called during the second quarter of 2007.

6. DEBT ISSUANCE

On March 30, 2007, the Company issued $20.0 million in junior subordinated debt securities through a pooled trust preferred offering. Similar to previous offerings, these securities were issued through a newly formed statutory business trust, East West Capital Trust VIII (Trust VIII), a wholly-owned subsidiary of the Company. The proceeds from the debt securities are loaned by Trust VIII to the Company and are included in long-term debt in the accompanying Condensed Consolidated Balance Sheet. The securities issued by Trust VIII have a scheduled maturity of June 6, 2037 and bear interest at a per annum rate based on the three-month Libor plus 140 basis points, payable on a quarterly basis. At June 30, 2007, the interest rate on the junior subordinated debt was 6.76%. The junior subordinated debt issued qualifies as Tier I capital for regulatory reporting purposes. The Company did not issue any new junior subordinated debt securities during the second quarter of 2007.

7. COMMITMENTS AND CONTINGENCIES

Credit Extensions In the normal course of business, the Company has various outstanding commitments to extend credit that are not reflected in the accompanying interim condensed consolidated financial statements. As of June 30, 2007 and December 31, 2006, commercial and standby letters of credit totaled $616.3 million and $519.0 million, respectively. Total undisbursed loan commitments amounted to $2.60 billion and $2.24 billion, respectively, as of June 30, 2007 and December 31, 2006. In addition, the Company has committed to fund mortgage and commercial loan applications in process amounting to $422.9 million and $366.6 million as of June 30, 2007 and December 31, 2006, respectively.

Guarantees From time to time, the Company sells or securitizes loans with recourse in the ordinary course of business. For loans that have been sold or securitized with recourse, the recourse component is considered a guarantee. When the Company sells a loan with recourse, it commits to stand ready to perform if the loan defaults, and to make payments to remedy the default. As of June 30, 2007, loans sold or securitized with recourse were comprised of residential single family and multifamily loans, totaling $253.0 million. As of December 31, 2006, loans sold with recourse were comprised solely of single family mortgage loans, and totaled $26.5 million. The increase in loans sold or securitized with recourse as of June 30, 2007 is due to $229.7 million in multifamily loans that were securitized through Fannie Mae during the second quarter of 2007. The Company s recourse reserve related to sold or securitized loans totaled $1.5 million and $68 thousand as of June 30, 2007 and December 31, 2006, respectively, and is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

The Company also sells loans without recourse that may have to be subsequently repurchased if a defect that occurred during the loan origination process results in a violation of a representation or warranty made in connection with the sale of the loan. When a loan sold to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred and if such defects give rise to a violation of a representation or warranty made to the investor in connection with the sale. If such a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase the loan. As of June 30, 2007 and December 31, 2006, the amount of loans sold without recourse totaled $2.2 billion and $1.49 billion, respectively.

Litigation Neither the Company nor the Bank is involved in any material legal proceedings at June 30, 2007. The Bank, from time to time, is a party to litigation which arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. After taking into consideration information furnished by counsel to the Company and the Bank, management believes that the resolution of such issues will not have a material adverse impact on the financial position, results of operations, or liquidity of the Company or the Bank.

Regulated Investment Company On December 31, 2003**, the California Franchise Tax Board (FTB) announced that it is taking the position that certain tax deductions relating to regulated investment companies will be disallowed pursuant to California Senate Bill 614 and California Assembly Bill 1601, which were signed into law in the fourth quarter of 2003.** East West Securities Company, Inc. (the Fund), a RIC formed and funded in July 2000 to raise capital in an efficient and economical manner was dissolved on December 30, 2002 as a result of, among other reasons, proposed legislation to change the tax treatments of RICs. The Fund provided state tax benefits beginning in 2000 until the end of 2002, when the RIC was officially dissolved. While the Company s management continues to believe that the tax benefits realized in previous years were appropriate and fully defensible under the existing tax codes at that time, the Company has deemed it prudent to participate in the voluntary compliance initiative, or VCI offered by the State of California to avoid certain potential penalties should the FTB choose to litigate its announced position about the tax treatment of RICs for periods prior to enactment of the legislation described above and should the FTB be successful in that litigation.

Pursuant to the VCI program, the Company filed amended California income tax returns on April 15, 2004 for all affected years and paid the resulting taxes and interest due to the FTB. This amounted to an aggregate payment of $14.2 million for tax years 2000, 2001, and 2002. The Company s management continues to believe that the tax deductions are appropriate and, as such, refund claims have also been filed for the amounts paid with the amended returns. These refund claims are reflected as assets in the Company s consolidated financial statements. As a result of these actions amending the Company s California income tax returns and subsequent related filing of refund claims the Company retains its potential exposure for assertion of an accuracy-related penalty should the FTB prevail in its position, in addition to our risk of not being successful in our refund claim for taxes and interest. The Company s potential exposure to all other penalties, however, has been eliminated through this course of action.

The FTB is currently in the process of reviewing and assessing our refund claims for taxes and interest for tax years 2000 through 2002. Management is continuing to pursue these claims, to monitor developments in the law in this area, and to monitor the status of tax claims with respect to other registered investment companies. Management has considered this claim as part of its evaluation of the Company s uncertain tax positions in accordance with the provisions of FIN 48. Pursuant to the adoption of FIN 48 on January 1, 2007, the Company increased its existing unrecognized tax benefits by $7.1 million, relating to a reduction in the state income tax receivable in connection with its dissolved regulated investment company, East West Securities Company, Inc. (See Note 9).

8. STOCKHOLDERS EQUITY

Earnings Per Share The actual number of shares outstanding at June 30, 2007 was 60,847,943. Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated on the basis of the weighted average number of shares outstanding during the period plus restricted stock and shares issuable upon the assumed exercise of outstanding common stock options and warrants.

The following table sets forth earnings per share calculations for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30, 2007			**2006**		
	Net Income	**Number of Shares**	**Per Share Amounts**	**Net Income**	**Number of Shares**	**Per Share Amounts**
	(In thousands, except per share data)					
Basic earnings per share	$ 40,490	60,381	$ 0.67	$ 36,645	60,270	$ 0.61
Effect of dilutive securities:						
Stock options(1)		724	(0.01)		1,091	(0.02)
Restricted stock		195			167	
Stock warrants		46			91	
Dilutive earnings per share	$ 40,490	61,346	$ 0.66	$ 36,645	61,619	$ 0.59

	Six Months Ended June 30, 2007			**2006**		
	Net Income	**Number of Shares**	**Per Share Amounts**	**Net Income**	**Number of Shares**	**Per Share Amounts**
	(In thousands, except per share data)					
Basic earnings per share	$ 82,586	60,515	$ 1.36	$ 68,696	58,538	$ 1.17
Effect of dilutive securities:						
Stock options(1)		769	(0.02)		1,150	(0.02)
Restricted stock		193			178	
Stock warrants		46			90	
Dilutive earnings per share	$ 82,586	61,523	$ 1.34	$ 68,696	59,956	$ 1.15

(1) Excludes 25,829 and 176,036 weighted average options outstanding for the three months and six months ended June 30, 2007, respectively, as well as 14,204 and 18,391 weighted average options outstanding for the three and six months ended June 30, 2006, respectively, for which the exercise price exceeded the average market price of the Company s common stock during these periods.

Stock Repurchase Program On January 23, 2007, the Company s Board of Directors authorized a new stock repurchase program to buy back up to $30.0 million of the Company s common stock. The repurchase of 775,000 shares was completed during the first quarter of 2007.

On March 20, 2007, the Company s Board of Directors authorized an increase in the stock repurchase program to buy back up to an additional $50.0 million of the Company s common stock in 2007. This new authorization is in addition to the $30.0 million stock repurchase authorized on January 23, 2007. During the second quarter of 2007, the Company repurchased 400,000 shares at a weighed average cost of $40.29. As of June 30, 2007, the Company had $34.2 million of repurchase authorization remaining.

Quarterly Dividends The Company s Board of Directors declared and paid quarterly common stock cash dividends of $0.10 per share payable on or about May 15, 2007 to shareholders of record on May 1, 2007. Cash dividends totaling $6.1 million and $12.2 million were paid to the Company s shareholders during the second quarter and first half of 2007, respectively.

9. INCOME TAXES

The Company adopted the provisions of FIN 48 on January 1, 2007. FIN 48 establishes a single model to address the accounting for uncertain tax positions. Specifically, FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

As a result of the implementation of FIN 48, the Company increased its existing unrecognized tax benefits by $7.1 million, relating to a reduction in the state income tax receivable in connection with its dissolved regulated investment company, East West Securities Company, Inc. This receivable was related to the FTB s position on certain state tax deductions taken by East West Securities Company, Inc. for the 2000, 2001, and 2002 tax years. The $7.1 million increase in unrecognized tax benefits was recorded as a cumulative effect accounting adjustment to retained earnings of $4.6 million, net of the federal deferred tax impact of $2.5 million.

As of January 1, 2007, the Company had $7.6 million of unrecognized tax benefits that if recognized, would be recorded as a reduction in income tax expense of $5.1 million directly reducing the effective tax rate. There have been no significant changes to these amounts during the six months ended June 30, 2007. The Company does not anticipate that the total amount of unrecognized tax benefits will significantly change for the year ending December 31, 2007.

The Company s uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. The Company files income tax returns in the U.S. federal jurisdiction and various states. The statute of limitation is no longer open for the assessment of U.S. federal income taxes and state authorities, other than the FTB, for years prior to 2003. The Company is currently under examination by the FTB for tax years 2000 through 2002 and tax years 2000 through 2006 remain open for the assessment of California income and franchise taxes. The Company is not currently under examination by the Internal Revenue Service or any other income or franchise tax authorities other than the FTB. Management does not believe that there are any other tax jurisdictions in which the outcome of unresolved issues or claims is likely to be material to the Company s financial position, cash flows or results of operations. Management further believes that the Company has made adequate provisions for all income tax uncertainties.

The Company recognizes interest and penalties, if applicable, related to the underpayment of income taxes as a component of income tax expense in the consolidated statement of earnings. The Company has accrued $837 thousand of interest expense for its unrecognized tax position as of January 1, 2007 and June 30, 2007.

10. BUSINESS SEGMENTS

The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank and the Company overall. The Company has identified four principal operating segments for purposes of management reporting: retail banking, commercial lending, treasury, and residential lending. Information related to the Company s remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in Other. Although all four operating segments offer financial products and services, they are managed separately based on each segment s strategic focus. While the retail banking segment focuses primarily on retail operations through the Bank s branch network, certain designated branches have responsibility for generating commercial deposits and loans. The commercial lending segment, which includes commercial real estate, primarily generates commercial loans and deposits through the efforts of commercial lending officers located in the Bank s northern and southern California production offices. The treasury department s primary focus is managing the Bank s investments, liquidity, and interest rate risk; the residential lending segment is mainly responsible for the Bank s portfolio of single family and multifamily residential loans.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies described in Note 1 of our annual report on Form 10-K for the year ended December 31, 2006. Operating segment results are based on the Company s internal management reporting process, which reflects assignments and allocations of capital, certain operating and administrative costs and the provision for loan losses. Net interest income is based on the Company s internal funds transfer pricing system which assigns a cost of funds or a credit for funds to assets or liabilities based on their type, maturity or re-pricing characteristics. Noninterest income and noninterest expense, including depreciation and amortization, directly attributable to a segment are assigned to that business. Indirect costs, including overhead expense, are allocated to the segments based on several factors, including, but not limited to, full-time equivalent employees, loan volume and deposit volume. The provision for credit losses is allocated based on actual losses incurred and an allocation of the remaining provision based on new loan originations for the period. The Company evaluates overall performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses.

The following tables present the operating results and other key financial measures for the individual operating segments for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30, 2007					
	Retail Banking (In thousands)	**Commercial Lending**	**Treasury**	**Residential Lending**	**Other**	**Total**
Interest income	$ 62,480	$ 81,329	$ 28,303	$ 13,734	$ 1,368	$ 187,214
Charge for funds used	(43,749)	(55,642)	(26,684)	(10,446)		(136,521)
Interest spread on funds used	18,731	25,687	1,619	3,288	1,368	50,693
Interest expense	(40,955)	(9,004)	(38,326)			(88,285)
Credit on funds provided	69,897	14,025	52,599			136,521
Interest spread on funds provided	28,942	5,021	14,273			48,236
Net interest income	$ 47,673	$ 30,708	$ 15,892	$ 3,288	$ 1,368	$ 98,929
Depreciation and amortization	$ 2,551	$ 136	$ (99)	$ (51)	$ 1,254	$ 3,791
Goodwill	181,910	12,127		48,509	1,717	244,263
Segment pretax profit (loss)	28,879	27,026	16,930	2,242	(8,609)	66,468
Segment assets	2,724,109	3,866,023	2,090,707	1,524,559	623,959	10,829,357

	Three Months Ended June 30, 2006					
	Retail Banking (In thousands)	**Commercial Lending**	**Treasury**	**Residential Lending**	**Other**	**Total**
Interest income	$ 54,597	$ 66,108	$ 15,821	$ 17,537	$ 5,185	$ 159,248
Charge for funds used	(37,782)	(44,450)	(21,715)	(14,045)		(117,992)
Interest spread on funds used	16,815	21,658	(5,894)	3,492	5,185	41,256
Interest expense	(33,964)	(5,060)	(28,580)			(67,604)
Credit on funds provided	67,793	10,013	40,186			117,992
Interest spread on funds provided	33,829	4,953	11,606			50,388
Net interest income	$ 50,644	$ 26,611	$ 5,712	$ 3,492	$ 5,185	$ 91,644
Depreciation and amortization	$ 2,754	$ 177	$ (513)	$ 275	$ 223	$ 2,916
Goodwill	182,545	12,170		48,679	957	244,351
Segment pretax profit (loss)	31,738	23,894	7,292	2,533	(5,563)	59,894
Segment assets	2,379,397	3,105,431	1,536,434	2,436,093	560,936	10,018,291

	Six Months Ended June 30, 2007					
	Retail Banking (In thousands)	**Commercial Lending**	**Treasury**	**Residential Lending**	**Other**	**Total**
Interest income	$ 125,068	$ 159,309	$ 56,316	$ 29,876	$ 2,822	$ 373,391
Charge for funds used	(87,716)	(109,201)	(51,702)	(22,489)		(271,108)
Interest spread on funds used	37,352	50,108	4,614	7,387	2,822	102,283
Interest expense	(80,042)	(17,102)	(78,715)			(175,859)
Credit on funds provided	138,216	27,096	105,796			271,108
Interest spread on funds provided	58,174	9,994	27,081			95,249
Net interest income	$ 95,526	$ 60,102	$ 31,695	$ 7,387	$ 2,822	$ 197,532
Depreciation and amortization	$ 4,956	$ 351	$ (949)	$ (8)		