

CB BANCSHARES INC/HI
Form 8-K
January 23, 2004

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FORM 8-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Current Report Pursuant to Section 13
of the Securities Exchange Act of 1934

Date of Report (Date Earliest Event reported) January 21, 2004

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)

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Item 12. Disclosure of Operations and Financial Condition
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Item 12. Disclosure of Operations and Financial Condition

On January 21, 2004, CB Bancshares, Inc. issued a press release announcing the Company's results of operations for the quarter and year ended December 31, 2003.

The earnings release includes non-GAAP financial measures, which excludes the effect of expenses associated with the unsolicited hostile takeover proposal announced by Central Pacific Financial Corp. on April 17, 2003. The earnings release also presents the calculation of the efficiency ratio, which excludes the unsolicited hostile takeover proposal expenses and amortization of intangibles.

Management uses these non-GAAP financial measures because they provide meaningful information regarding the Company's operating performance and facilitate management's comparisons to the Company's historical operating results. The Company believes that these non-GAAP financial measures can also be useful to investors in facilitating comparisons to the Company's historical operating results.

These non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles and may be different from non-GAAP financial measures used by other companies. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed by the undersigned hereunto duly authorized.

Date: January 22, 2004

CB Bancshares, Inc.

By: /s/ Dean K. Hirata

Dean K. Hirata
Senior Vice President and
Chief Financial Officer
(principal financial officer)

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FOR IMMEDIATE RELEASE

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CB BANCSHARES, INC. REPORTS RECORD EARNINGS FOR 2003,
A 53.9% INCREASE

HONOLULU, HAWAII, January 21, 2004 CB Bancshares, Inc. (NASDAQ: CBBI), parent company of City Bank, reported consolidated net income of \$20.7 million, or \$4.72 per diluted share, for the year ended December 31, 2003, a 53.9% increase over consolidated net income of \$13.5 million, or \$3.11 per diluted share, in 2002.

Consolidated net income for the quarter ended December 31, 2003 totaled \$6.9 million, or \$1.56 per diluted share, a 90.7% increase over consolidated net income of \$3.6 million, or \$0.83 per diluted share, over the same quarter in 2002.

Consolidated net income for the quarter and year ended December 31, 2003 includes \$470,000 (\$320,000, or \$0.08 per share, after tax) and \$6.6 million (\$4.4 million, or \$1.01 per share, after tax), respectively, in expenses associated with the defense of the unsolicited hostile takeover proposal by Central Pacific Financial Corp. announced on April 16, 2003.

Ronald K. Migita, President and Chief Executive Officer of CB Bancshares, Inc. said, "We are pleased to report our record financial results for the year ended December 31, 2003. This year, beginning with the second quarter, City Bank has delivered three consecutive quarters of outstanding financial performance fueled by continued strength in the Bank's core businesses. Loan volume in our California operations and our Hawaii mortgage banking business continue to exceed expectations. Going forward we will continue to execute on our business plan and focus on asset quality. We believe City Bank is well positioned in its markets to deliver sustainable growth and to continue to enhance value for the shareholders of CB Bancshares."

At December 31, 2003, as compared to December 31, 2002, the Company had \$1.9 billion in assets, up 13.7%; \$1.3 billion in loans, net, up 21.1%; and \$1.2 billion in deposits, up 3.7%.

Net interest income was \$21.7 million and \$80.0 million for the fourth quarter and year ended December 31, 2003, respectively, an increase of \$2.7 million, or 14.3%, and \$2.9 million, or 3.8%, respectively, over the same periods in 2002. The increase in net interest income for the year ended December 31, 2003 was due to a \$157.6 million increase in the average balance of interest-earning assets, partially offset by a \$116.7

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million increase in the average balance of interest-bearing liabilities and a 32 basis points decline in the net interest margin (to 4.86%).

Noninterest income was \$6.3 million and \$23.3 million for the fourth quarter and year ended December 31, 2003, respectively, an increase of \$2.8 million, or 79.3%, and \$10.5 million, or 81.7%, respectively, over the same periods in 2002. The increase for the year ended December 31, 2003 was due to: 1) \$1.7 million in net gains on the sale of securities (as compared to a \$1.8 million net loss on the sale of securities during the same period in 2002); 2) a \$1.5 million increase in revenues from item processing fee income; and 3) a \$2.5 million increase in other non-interest income. The increase in other non-interest income was primarily due to \$975,000 recorded in connection with an insurance company demutualization distribution in the second quarter of 2003 and \$756,000 recorded in connection with a deferred gain on sale of a building (gain recognition criteria was met in the fourth quarter of 2003).

Noninterest expense totaled \$16.6 million and \$64.9 million for the fourth quarter and year ended December 31, 2003, respectively, an increase of \$3.5 million, or 26.4%, and \$12.3 million, or 23.4%, respectively, over the same periods in 2002. The increase for the year ended December 31, 2003 was primarily due to a \$5.2 million increase in salaries and employee benefits (higher incentive-based compensation and increase in personnel for mainland loan offices and an item processing center) and \$6.6 million of expenses related to the unsolicited hostile takeover proposal.

The efficiency ratio (excluding the unsolicited hostile takeover proposal expenses, impairment write-down and amortization of intangibles) improved from 57.37% for the year ended December 31, 2002 to 56.41% for the year ended December 31, 2003. Inclusive of these items, the efficiency ratio was 58.81% and 63.11% for the year ended December 31, 2002 and 2003, respectively.

Nonperforming loans and assets were \$5.7 million and \$5.9 million, respectively, at December 31, 2003, which represent decreases of \$7.0 million, or 55.0%, and \$9.0 million, or 60.5%, respectively, as compared to December 31, 2002. The decrease in nonperforming assets in 2003 was primarily due to: 1) a decrease of \$1.9 million in nonperforming commercial loans; 2) a decrease of \$4.9 million in nonperforming real estate loans; and 3) a decrease of \$2.0 million in other real estate owned.

The provision for credit losses was \$1.2 million and \$7.2 million for the quarter and year ended December 31, 2003, respectively, a decrease of \$3.0 million, or 72.3%, and \$9.9 million, or 58.0%, respectively, compared to the same periods in 2002. The Company's lower provision this year reflects the significant improvement in asset quality and the stronger Hawaii economy. The allowance for credit losses to total nonperforming loans increased from 213.06% at December 31, 2002 to 497.38% at December 31, 2003.

The significant improvement in the coverage of the allowance to nonperforming loans reflects, in part, the continued emphasis on reducing nonperforming loans and the strength and expertise of our risk management group, said Migita.

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At December 31, 2003, total stockholders' equity was \$169.2 million, an increase of \$18.2 million, or 12.1%, from December 31, 2002. Return on equity for the year ended December 31, 2003 was 13.00% (15.77% excluding the unsolicited hostile takeover proposal expenses), an increase from 9.35% in 2002. In December 2003, the Company paid a cash dividend of \$0.36 per common share, an increase of 227.3% over the \$0.11 per common share paid in December 2002.

During the fourth quarter of 2003, City Bank, our principal bank subsidiary, announced its new Certificate of Deposits Account Registry Service, which provides a secure savings and investment option for consumers, small businesses and corporations with large deposit balances. Under this service, City Bank has a new tool to provide customers with access to greater FDIC insurance coverage.

In December, City Bank was named the top small-business friendly bank in the State of Hawaii by the U. S. Small Business Administration's Office of Advocacy.

CB Bancshares, Inc. is a bank holding company, which provides a full range of banking products and services for small-and-medium-sized businesses and retail customers through its principal subsidiary, City Bank. City Bank maintains 22 branches on the islands of Oahu, Hawaii, Maui and Kauai.

This communication may be deemed to include forward-looking statements, such as statements that relate to CB Bancshares' financial results. Forward-looking statements are typically identified by words or phrases such as believe, expect, anticipate, intent, estimate, may increase, fluctuate, and similar expressions or future or conditional verbs such as will, should, would, and could. Forward-looking statements are CB Bancshares' current estimates or expectations of future events or future results. For such statements, CB Bancshares claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those indicated by these statements because the realization of those results is subject to many risks and uncertainties. CB Bancshares' 2002 Annual Report on Form 10-K and other periodic reports to the Securities and Exchange Commission contain additional information about factors that could affect actual results. All forward-looking statements included in this communication are based on information available at the time of the release, and CB Bancshares assumes no obligation to update any forward-looking statement.

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CB Bancshares, Inc. and Subsidiaries
(Unaudited)

| (in thousands) | Quarter ended December 31, | | Year ended December 31, | |
|--|----------------------------|-----------------|-------------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Interest income: | | | | |
| Interest and fees on loans | \$ 21,946 | \$ 21,379 | \$ 85,635 | \$ 89,752 |
| Interest and dividends on investment securities: | | | | |
| Taxable interest income | 4,041 | 3,758 | 13,906 | 13,478 |
| Nontaxable interest income | 386 | 390 | 1,546 | 1,557 |
| Dividends | 393 | 499 | 1,693 | 1,971 |
| Other interest income | 3 | 85 | 230 | 187 |
| Total interest income | 26,769 | 26,111 | 103,010 | 106,945 |
| Interest expense: | | | | |
| Deposits | 2,217 | 3,989 | 11,135 | 18,098 |
| Short-term borrowings | 672 | 121 | 1,158 | 672 |
| Long-term debt | 2,221 | 3,048 | 11,123 | 11,522 |
| Total interest expense | 5,110 | 7,158 | 23,416 | 30,292 |
| Net interest income | 21,659 | 18,953 | 79,594 | 76,653 |
| Provision for credit losses | 1,150 | 4,151 | 7,180 | 17,110 |
| Net interest income after provision for credit losses | 20,509 | 14,802 | 72,414 | 59,543 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 1,142 | 1,155 | 4,559 | 4,345 |
| Other service charges and fees | 1,778 | 1,715 | 7,147 | 6,784 |
| Net realized gains (losses) on sales of securities | 711 | (146) | 1,718 | (1,765) |
| Net realized gains on sales of loans | 571 | 78 | 2,533 | 1,493 |
| Impairment of asset-backed securities | | | | (1,399) |
| Item processing fee income | 484 | 98 | 1,866 | 397 |
| Other | 1,602 | 607 | 5,463 | 2,960 |
| Total noninterest income | 6,288 | 3,507 | 23,286 | 12,815 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 7,990 | 5,104 | 29,852 | 24,675 |
| Net occupancy expense | 1,668 | 1,600 | 6,639 | 6,367 |
| Equipment expense | 635 | 757 | 2,406 | 2,942 |
| Unsolicited hostile takeover proposal expenses | 470 | | 6,621 | |
| Other | 5,807 | 5,643 | 19,409 | 18,634 |
| Total noninterest expense | 16,570 | 13,104 | 64,927 | 52,618 |
| Income before income taxes | 10,227 | 5,205 | 30,773 | 19,740 |
| Income tax expense | 3,355 | 1,601 | 10,025 | 6,258 |
| NET INCOME | \$ 6,872 | \$ 3,604 | \$ 20,748 | \$ 13,482 |



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CB Bancshares, Inc. and Subsidiaries
(Unaudited)

| (in thousands) | December 31, 2003 | December 31, 2002 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$ 46,566 | \$ 75,069 |
| Interest-bearing deposits in other banks | 1,343 | 1,214 |
| Federal funds sold | 400 | 20,525 |
| Investment securities: | | |
| Held to maturity | 134,163 | 112,013 |
| Available-for-sale | 302,646 | 228,335 |
| Restricted | 31,576 | 29,886 |
| Loans held for sale | 56,479 | 98,568 |
| Loans, net | 1,253,843 | 1,035,272 |
| Premises and equipment | 16,867 | 16,596 |
| Other assets | 59,778 | 56,880 |
| Total assets | \$ 1,903,661 | \$ 1,674,358 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Deposits: | | |
| Non-interest bearing | \$ 217,148 | \$ 212,140 |
| Interest bearing | 988,577 | 951,087 |
| Total deposits | 1,205,725 | 1,163,227 |
| Short-term borrowings | 305,400 | 10,400 |
| Other liabilities | 26,217 | 27,595 |
| Long-term debt | 194,389 | 319,407 |
| Minority interest in consolidated subsidiary | 2,720 | 2,720 |
| Total liabilities | 1,734,451 | 1,523,349 |
| Stockholders' equity: | | |
| Preferred stock | | |
| Common stock | 4,337 | 3,898 |
| Additional paid-in capital | 103,050 | 78,311 |
| Retained earnings | 56,542 | 63,679 |
| Unreleased shares to employee stock ownership plan | (1,323) | (1,486) |
| Accumulated other comprehensive income, net of tax | 6,604 | 6,607 |
| Total stockholders' equity | 169,210 | 151,009 |
| Total liabilities and stockholders' equity | \$ 1,903,661 | \$ 1,674,358 |

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CONSOLIDATED FINANCIAL HIGHLIGHTS
CB Bancshares, Inc. and Subsidiaries
At or for the Quarter and Year Ended
December 31, 2003 and 2002

| | 2003 | 2002 | Change | |
|--|--------------|--------------|------------|---------|
| | | | Amount | Percent |
| (dollars in thousands, except number of shares and per share data) | | | | |
| QUARTER ENDED DECEMBER 31: | | | | |
| Net income | \$ 6,872 | \$ 3,604 | \$ 3,268 | 90.7% |
| Net income adjusted (1) | 7,192 | 3,604 | 3,588 | 99.6 |
| Per share data: | | | | |
| Diluted: | | | | |
| Net income | 1.56 | 0.83 | 0.73 | 88.0 |
| Net income adjusted (1) | 1.64 | 0.83 | 0.81 | 97.6 |
| Cash dividends | 0.36 | 0.11 | 0.25 | 227.3 |
| Average shares outstanding (2) | 4,397,940 | 4,365,708 | 32,232 | 0.7 |
| AT DECEMBER 31: | | | | |
| Balance sheet: | | | | |
| Total assets | \$ 1,903,661 | \$ 1,674,358 | \$ 229,303 | 13.7% |
| Loans | 1,338,812 | 1,160,963 | 177,849 | 15.3 |
| Loans, net | 1,253,843 | 1,035,272 | 218,571 | 21.1 |
| Deposits | 1,205,725 | 1,163,227 | 42,498 | 3.7 |
| Stockholders equity | 169,210 | 151,009 | 18,201 | 12.1 |
| Asset quality: | | | | |
| Nonperforming loans | 5,728 | 12,730 | (7,002) | (55.0) |
| Nonperforming assets (3) | 5,901 | 14,923 | (9,022) | (60.5) |
| Allowance for credit losses | 28,490 | 27,123 | 1,367 | 5.0 |
| Per share data: | | | | |
| Book value | 39.35 | 35.57 | 3.78 | 10.6 |
| Market value | 62.61 | 38.03 | 24.58 | 64.6 |
| YEAR ENDED DECEMBER 31: | | | | |
| Net income | \$ 20,748 | \$ 13,482 | \$ 7,266 | 53.9% |
| Net income adjusted (1) | 25,169 | 14,433 | 10,736 | 74.4 |
| Per share data: | | | | |
| Diluted: | | | | |
| Net income | 4.72 | 3.11 | 1.61 | 51.8 |
| Net income adjusted (1) | 5.73 | 3.33 | 2.40 | 72.1 |
| Cash dividends | 0.95 | 0.44 | 0.51 | 115.9 |
| Average shares outstanding (2) | 4,391,516 | 4,332,083 | 59,433 | 1.4 |
| Balance sheet averages: | | | | |
| Total assets | \$ 1,740,967 | \$ 1,574,396 | \$ 166,571 | 10.6% |
| Loans | 1,209,567 | 1,149,100 | 60,467 | 5.3 |
| Earning assets | 1,653,290 | 1,495,733 | 157,557 | 10.5 |
| Deposits | 1,176,512 | 1,133,169 | 43,343 | 3.8 |
| Stockholders equity | 159,571 | 144,253 | 15,318 | 10.6 |
| SELECTED FINANCIAL RATIOS: | | | | |
| Return on average: | | | | |
| Total assets | 1.19% | 0.86% | | |
| Total assets adjusted (1) | 1.45 | 0.92 | | |
| Stockholders equity | 13.00 | 9.35 | | |
| Stockholders equity adjusted (1) | 15.77 | 10.01 | | |
| Net interest margin | 4.86 | 5.18 | | |
| Efficiency ratio (4) | 56.41 | 57.37 | | |
| Nonperforming loans to total loans (at December 31) | 0.43 | 1.10 | | |

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| | | |
|---|--------|--------|
| Nonperforming assets to total assets (at December 31) | | |
| (3) | 0.31 | 0.89 |
| Allowance for credit losses to total loans (at December 31) | 2.13 | 2.34 |
| Allowance for credit losses to nonperforming loans (at December 31) | 497.38 | 213.06 |

Notes:

- (1) Excludes after-tax unsolicited hostile takeover proposal expenses in 2003 and after-tax impairment write-down in 2002 (see supplemental financial information).
 - (2) Average outstanding shares retroactively adjusted for the 390,345 and 361,632 common shares issued in connection with the 10% stock dividend distributed to shareholders of record on June 16, 2003 and June 14, 2002, respectively.
 - (3) Nonperforming assets consist of nonperforming loans and other real estate owned.
 - (4) Defined as noninterest expense excluding unsolicited hostile takeover proposal expenses, impairment write-down and amortization of intangibles as a percentage of total operating revenue (see supplemental financial information).
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Supplemental Financial Information
CB Bancshares, Inc. and Subsidiaries
Reconciliation of Non-GAAP Financial Measures
At or for the Quarter and Year Ended
December 31, 2003 and 2002

| | 2003 | | 2002 | |
|---|------------------|-------------------|------------------|------------------|
| | Quarter Ended | Year Ended | Quarter Ended | Year Ended |
| (dollars in thousands, except per share data) | | | | |
| Net income: | | | | |
| Net income | \$ 6,872 | \$ 20,748 | \$ 3,604 | \$ 13,482 |
| Unsolicited proposal expenses (1) | 320 | 4,421 | | |
| Impairment write-down (2) | | | | 951 |
| Net income, excluding unsolicited proposal expenses and impairment write-down | <u>\$ 7,192</u> | <u>\$ 25,169</u> | <u>\$ 3,604</u> | <u>\$ 14,433</u> |
| Earnings per share: | | | | |
| Net income | \$ 1.56 | \$ 4.72 | \$ 0.83 | \$ 3.11 |
| Unsolicited proposal expenses (1) | 0.08 | 1.01 | | |
| Impairment write-down (2) | | | | 0.22 |
| Net income, excluding unsolicited proposal expenses and impairment write-down | <u>\$ 1.64</u> | <u>\$ 5.73</u> | <u>\$ 0.83</u> | <u>\$ 3.33</u> |
| Return on average assets: | | | | |
| Net income | | 1.19% | | 0.86% |
| Unsolicited proposal expenses (1) | | 0.26 | | |
| Impairment write-down (2) | | | | 0.06 |
| Net income, excluding unsolicited proposal expenses and impairment write-down | | <u>1.45%</u> | | <u>0.92%</u> |
| Return on average stockholders equity: | | | | |
| Net income | | 13.00% | | 9.35% |
| Unsolicited proposal expenses (1) | | 2.77 | | |
| Impairment write-down (2) | | | | 0.67 |
| Net income, excluding unsolicited proposal expenses and impairment write-down | | <u>15.77%</u> | | <u>10.01%</u> |
| Efficiency ratio: | | | | |
| Net interest income | | \$ 79,594 | | \$ 76,653 |
| Noninterest income | | 23,286 | | 12,815 |
| Total operating revenue (a) | | <u>\$ 102,880</u> | | <u>\$ 89,468</u> |
| Add back impairment write-down | | | | 1,399 |
| Total operating revenue, adjusted (b) | | <u>\$ 102,880</u> | | <u>\$ 90,867</u> |
| Noninterest expense (c) | | \$ 64,927 | | \$ 52,618 |
| Unsolicited proposal expenses | | (6,621) | | |
| Amortization of intangibles | | (272) | | (489) |

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| | | |
|--|-----------|-----------|
| Noninterest expense, adjusted (d) | \$ 58,034 | \$ 52,129 |
| GAAP efficiency ratio (c ÷ a) | 63.11% | 58.81% |
| Efficiency ratio, excluding unsolicited proposal expenses, impairment write-down and amortization of intangibles (d ÷ b) | 56.41% | 57.37% |

Notes:

- (1) Represents after-tax expenses associated with the defense of the unsolicited hostile takeover proposal by Central Pacific Financial Corp. announced on April 16, 2003.
- (2) Represents after-tax write-down for impairment of asset backed securities.