CATHAY GENERAL BANCORP
Form 10-Q
November 10, 2008

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 September 30, 2008

OR

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

For the transition period from to

Commission file number 0-18630

CATHAY GENERAL BANCORP
(Exact name of registrant as specified in its charter)

Delaware (State of other jurisdiction of incorporation or organization)	95-4274680 (I.R.S. Employer Identification No.)
777 North Broadway, Los Angeles, California (Address of principal executive offices)	90012 (Zip Code)

Registrant's telephone number, including area code: (213) 625-4700

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No ¨

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

Large accelerated filer R		Accelerated filer ¨
Non-accelerated filer ¨	(Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, $.01 par value, 49,506,699 shares outstanding as of October 31, 2008.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
3RD QUARTER 2008 REPORT ON FORM 10-Q
TABLE OF CONTENTS

PART I –	FINANCIAL INFORMATION	4
Item 1.	FINANCIAL STATEMENTS (Unaudited)	4
	NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)	7
Item 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	20
Item 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	45
Item 4.	CONTROLS AND PROCEDURES	46
PART II -	OTHER INFORMATION	46
Item 1.	LEGAL PROCEEDINGS	46
Item 1A.	RISK FACTORS	47
Item 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	48
Item 3.	DEFAULTS UPON SENIOR SECURITIES	48
Item 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	48
Item 5.	OTHER INFORMATION	49
Item 6.	EXHIBITS	49
SIGNATURES		50

2

Forward-Looking Statements

In this quarterly Report on Form 10-Q, the term “Bancorp” refers to Cathay General Bancorp and the term “Bank” refers to Cathay Bank. The terms “Company,” “we,” “us,” and “our” refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995 regarding management’s beliefs, projections, and assumptions concerning future results and events. These forward-looking statements may include, but are not limited to, such words as "believes," "expects," "anticipates," "intends," "plans," "estimates," "may," "will," "should," "could," "predicts," "potential," "continue," or the negative of such terms and other comparable terminology or similar expressions. Forward-looking statements are not guarantees. They involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties and other factors include, but are not limited to adverse developments or conditions related to or arising from:

- significant volatility and deterioration in the credit and financial markets and adverse changes in economic conditions resulting from a prolonged economic downturn;
- successful consummation of the purchase of preferred securities by the U.S. Treasury pursuant to its Capital Purchase Program;
- the impact of any goodwill impairment that may be determined;
- deterioration in asset or credit quality;
- acquisitions of other banks, if any;
- fluctuations in interest rates;
- expansion into new market areas;
- earthquake, wildfire or other natural disasters;
- competitive pressures;
- legislative and regulatory developments; and
- general economic or business conditions in California and other regions where the Bank has operations.

These and other factors are further described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007, (at Item 1A in particular) its reports and registration statements filed with the Securities and Exchange Commission (“SEC”) and other filings it makes in the future with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, we caution readers not to place undue reliance on any forward-looking statements, which speak to the date of this report. The Company has no intention and undertakes no obligation to update any forward-looking statement or to publicly announce the results of any revision of any forward-looking statement to reflect future developments or events.

The Company’s filings with the SEC are available to the public at the website maintained by the SEC at *http://www.sec.gov*, or by requests directed to Cathay General Bancorp, 777 North Broadway, Los Angeles, California 90012, Attn: Investor Relations (213) 625-4749.

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2008	December 31, 2007	% change
	(In thousands, except share and per share data)		
Assets			
Cash and due from banks	$ 82,923	$ 118,437	(30)
Short-term investments	5,185	2,278	128
Securities purchased under agreements to resell	150,000	516,100	(71)
Long-term certificates of deposit	-	50,000	(100)
Securities available-for-sale (amortized cost of $2,619,804 in 2008 and $2,348,606 in 2007)	2,592,331	2,347,665	10
Trading securities	19	5,225	(100)
Loans	7,499,281	6,683,645	12
Less: Allowance for loan losses	(92,068)	(64,983)	42
Unamortized deferred loan fees, net	(10,290)	(10,583)	(3)
Loans, net	7,396,923	6,608,079	12
Federal Home Loan Bank stock	67,672	65,720	3
Other real estate owned, net	43,410	16,147	169
Affordable housing investments, net	105,748	94,000	12
Premises and equipment, net	98,182	76,848	28
Customers' liability on acceptances	52,460	53,148	(1)
Accrued interest receivable	41,394	53,032	(22)
Goodwill	319,557	319,873	(0)
Other intangible assets, net	30,945	36,097	(14)
Other assets	68,573	39,883	72
Total assets	$ 11,055,322	$ 10,402,532	6
Liabilities and Stockholders' Equity			
Deposits			
Non-interest-bearing demand deposits	$ 821,233	$ 785,364	5
Interest-bearing deposits:			
NOW deposits	270,763	231,583	17
Money market deposits	785,119	681,783	15
Savings deposits	340,316	331,316	3
Time deposits under $100,000	1,550,433	1,311,251	18
Time deposits of $100,000 or more	3,081,306	2,937,070	5
Total deposits	6,849,170	6,278,367	9
Federal funds purchased	33,000	41,000	(20)
Securities sold under agreements to repurchase	1,550,000	1,391,025	11
Advances from the Federal Home Loan Bank	1,276,713	1,375,180	(7)
Other borrowings from financial institutions	-	8,301	(100)
Other borrowings for affordable housing investments	19,541	19,642	(1)

Long-term debt		171,136		171,136	-
Acceptances outstanding		52,460		53,148	(1)
Minority interest in consolidated subsidiary		8,500		8,500	-
Other liabilities		92,649		84,314	10
Total liabilities		10,053,169		9,430,613	7
Commitments and contingencies		-		-	-
Stockholders' Equity					
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued		-		-	-
Common stock, $0.01 par value, 100,000,000 shares authorized, 53,685,271 issued and 49,477,706 outstanding at September 30, 2008 and 53,543,752 issued and 49,336,187 outstanding at December 31, 2007		537		535	0
Additional paid-in-capital		488,446		480,557	2
Accumulated other comprehensive loss, net		(15,921)		(545)	2,821
Retained earnings		654,827		617,108	6
Treasury stock, at cost (4,207,565 shares at September 30, 2008 and at December 31, 2007)		(125,736)		(125,736)	-
Total stockholders' equity		1,002,153		971,919	3
Total liabilities and stockholders' equity	$	11,055,322	$	10,402,532	6

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

4

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
	(In thousands, except share and per share data)			
INTEREST AND DIVIDEND INCOME				
Loan receivable, including loan fees	$ 114,005	$ 123,925	$ 341,880	$ 356,841
Investment securities- taxable	27,575	25,127	84,507	71,381
Investment securities- nontaxable	284	443	974	1,625
Federal Home Loan Bank stock	1,004	639	2,685	1,689
Agency preferred stock	313	174	1,621	512
Federal funds sold and securities purchased under agreements to resell	2,899	7,615	12,294	15,382
Deposits with banks	42	1,248	523	3,288
Total interest and dividend income	146,122	159,171	444,484	450,718
INTEREST EXPENSE				
Time deposits of $100,000 or more	26,226	34,475	86,398	97,527
Other deposits	17,100	20,068	49,519	56,739
Securities sold under agreements to repurchase	15,174	9,865	44,716	23,126
Advances from Federal Home Loan Bank	11,785	11,472	35,229	34,930
Long-term debt	2,030	3,182	6,889	8,057
Short-term borrowings	206	282	828	1,263
Total interest expense	72,521	79,344	223,579	221,642
Net interest income before provision for credit losses	73,601	79,827	220,905	229,076
Provision for credit losses	15,800	2,200	43,800	5,300
Net interest income after provision for credit losses	57,801	77,627	177,105	223,776
NON-INTEREST INCOME				
Securities (losses)/gains, net	(15,313)	88	(12,980)	268
Letters of credit commissions	1,465	1,622	4,281	4,349
Depository service fees	1,189	1,146	3,636	3,529
Gains from sale of premises and equipment	-	2,705	21	2,714
Other operating income	4,290	3,298	12,372	10,045
Total non-interest income	(8,369)	8,859	7,330	20,905
NON-INTEREST EXPENSE				

Salaries and employee benefits	16,376	16,893	50,643	50,756
Occupancy expense	3,393	3,159	9,918	9,035
Computer and equipment expense	1,848	2,432	6,024	7,209
Professional services expense	3,410	2,388	8,890	6,659
FDIC and State assessments	1,336	284	3,172	804
Marketing expense	584	608	2,449	2,413
Other real estate owned expense	1,182	23	1,806	284
Operations of affordable housing investments , net	2,840	2,540	5,361	4,928
Amortization of core deposit intangibles	1,722	1,767	5,196	5,298
Other operating expense	2,480	3,128	7,422	8,350
Total non-interest expense	35,171	33,222	100,881	95,736
Income before income tax expense	14,261	53,264	83,554	148,945
Income tax expense	7,370	19,258	30,133	54,392
Net income	6,891	34,006	53,421	94,553
Other comprehensive loss, net of tax				
Unrealized holding (losses)/gains arising during the period	(5,833)	5,968	(18,106)	2,358
Less: reclassification adjustments included in net income	(8,910)	(10)	(2,730)	(210)
Total other comprehensive loss, net of tax	3,077	5,978	(15,376)	2,568
Total comprehensive income	$ 9,968	$ 39,984	$ 38,045	$ 97,121
Net income per common share:				
Basic	$ 0.14	$ 0.68	$ 1.08	$ 1.87
Diluted	$ 0.14	$ 0.67	$ 1.08	$ 1.84
Cash dividends paid per common share	$ 0.105	$ 0.105	$ 0.315	$ 0.300
Basic average common shares outstanding	49,441,621	49,828,379	49,392,655	50,683,650
Diluted average common shares outstanding	49,530,272	50,417,332	49,497,171	51,283,317

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30	
	2008	**2007**
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$ 53,421	$ 94,553
Adjustments to reconcile net income to net cash provided by operting activities:		
Provision for credit losses	43,800	5,300
Provision for losses on other real estate owned	1,248	210
Deferred tax benefit	(24,489)	(3,162)
Depreciation	3,184	3,183
Net gains on sale of other real estate owned	(75)	(29)
Net gains on sale of loans held for sale	(245)	(125)
Proceeds from sale of loans held for sale	10,599	2,532
Originations of loans held for sale	(10,395)	(2,375)
Purchase of trading securities	-	(5,000)
Write-downs on venture capital investments	270	630
Write-downs on impaired securities	33,654	-
Gain on sales and calls of securities	(20,674)	(268)
Decrease in fair value of warrants	26	90
Amortization of security premiums, net	1,651	1,310
Amortization of intangibles	5,277	5,474
Excess tax short-fall / (benefit) from share-based payment arrangements	240	(503)
Stock based compensation expense	5,828	5,694
Gain on sale of premises and equipment	(21)	(2,714)
Decrease / (increase) in accrued interest receivable	11,638	(14,775)
Decrease in other assets, net	7,519	2,238
Increase in other liabilities	5,028	10,637
Net cash provided by operating activities	127,484	102,900
Cash Flows from Investing Activities		
Increase in short-term investments	(2,907)	(773)
Decrease / (increase) in long-term investment	50,000	(50,000)
Decrease/ (increase) in securities purchased under agreements to resell	366,100	(360,000)
Purchase of investment securities available-for-sale	(1,503,844)	(944,144)
Proceeds from maturity and call of investment securities available-for-sale	819,939	231,465
Proceeds from sale of investment securities available-for-sale	586,932	101,169
Purchase of mortgage-backed securities available-for-sale	(1,580,092)	-
Proceeds from repayment and sale of mortgage-backed securities available-for-sale	1,391,236	107,909
Purchase of Federal Home Loan Bank stock	(4,765)	(15,248)
Redemption of Federal Home Loan Bank stock	5,498	1,093
Net increase in loans	(860,456)	(654,072)
Purchase of premises and equipment	(20,766)	(6,907)
Proceeds from sales of premises and equipment.	21	6,948
Proceeds from sale of other real estate owned	105	1,717

Net increase in investment in affordable housing		(11,517)		(10,873)
Acquisition, net of cash acquired		-		(3,655)
Net cash used in investing activities		(764,516)		(1,595,371)
Cash Flows from Financing Activities				
Net increase/(decrease) in demand deposits, NOW accounts, money market and saving deposits		187,385		(10,769)
Net increase in time deposits		383,418		352,103
Net increase in federal funds purchased and securities sold under agreement to repurchase		150,975		756,710
Advances from Federal Home Loan Bank		2,598,533		2,668,000
Repayment of Federal Home Loan Bank borrowings		(2,697,000)		(2,293,000)
Cash dividends		(15,555)		(15,294)
Issuance of long-term debt		-		65,000
Proceeds from other borrowings		20,629		22,351
Repayment of other borrowings		(28,930)		(29,000)
Proceeds from shares issued to Dividend Reinvestment Plan		1,931		1,837
Proceeds from exercise of stock options		372		1,416
Excess tax (short-fall)/benefits from share-based payment arrangements		(240)		503
Purchases of treasury stock		-		(76,908)
Net cash provided by financing activities		601,518		1,442,949
Decrease in cash and cash equivalents		(35,514)		(49,522)
Cash and cash equivalents, beginning of the period		118,437		132,798
Cash and cash equivalents, end of the period	$	82,923	$	83,276
Supplemental disclosure of cash flow information				
Cash paid during the period:				
Interest	$	226,210	$	217,353
Income taxes	$	56,699	$	51,679
Non-cash investing and financing activities:				
Net change in unrealized holding loss on securities available-for-sale, net of tax	$	(15,376)	$	2,568
Cumulative effect adjustment as result of adoption of FASB Interpretation No 48				
Adjustment to initially apply FASB Interpretation 48	$	-	$	(8,524)
Adjustment to initially apply EITF 06-4	$	(147)	$	-
Transfers to other real estate owned	$	28,357	$	373
Loans to facilitate the sale of other real estate owned	$	-	$	3,360
Loans to facilitate the sale of fixed assets	$	-	$	1,940

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CATHAY GENERAL BANCORP AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business

Cathay General Bancorp (the "Bancorp") is the holding company for Cathay Bank (the "Bank"), six limited partnerships investing in affordable housing investments in which the Bank is the sole limited partner, and GBC Venture Capital, Inc. The Bancorp also owns 100% of the common stock of five statutory business trusts created for the purpose of issuing capital securities. The Bank was founded in 1962 and offers a wide range of financial services. As of September 30, 2008, the Bank operates twenty one branches in Southern California, ten branches in Northern California, nine branches in New York State, three branches in Illinois, three branches in Washington State, two branches Texas, one branch in Massachusetts, one branch in New Jersey, one branch in Hong Kong, and a representative office in Shanghai and in Taipei. Deposit accounts at the Hong Kong branch are not insured by the Federal Deposit Insurance Corporation (the "FDIC").

2. Acquisitions and Investments

We continue to look for opportunities to expand the Bank's branch network by seeking new branch locations and/or by acquiring other financial institutions to diversify our customer base in order to compete for new deposits and loans, and to be able to serve our customers more effectively.

For each acquisition, we developed an integration plan for the consolidated company that addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The established plans are evaluated regularly during the integration process and modified as required. Merger and integration expenses are summarized in the following primary categories: (i) severance and employee-related charges; (ii) system conversion and integration costs, including contract termination charges; (iii) asset write-downs, lease termination costs for abandoned space and other facilities-related costs; and (iv) other charges. Other charges include investment banking fees, legal fees, other professional fees relating to due diligence activities and expenses associated with preparation of securities filings, as appropriate. These costs were included in the allocation of the purchase price at the acquisition date based on our formal integration plans.

As of September 30, 2008, goodwill was $319.6 million, a decrease of $316,000 compared to December 31, 2007, due to a reversal of accrued penalties of $528,000 as a result of the settlement with the California Franchise Board for a claim related to GBC Bancorp's 2001 California tax return and a tax refund of $60,000 related to New Asia Bancorp's 2006 tax year offset by a $196,000 deferred tax receivable write-off of state net operating loss carry-forwards from United Heritage Bank and a $76,000 tax payment related to GBC Bancorp's 2002 California tax return. Merger-related lease liability was $464,000 as of September 30, 2008, with cash outlays of $45,000 for the three months and $142,000 for the nine months ended September 30, 2008.

3. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2007.

The preparation of the consolidated financial statements in accordance with GAAP requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The most significant estimate subject to change relates to the allowance for loan losses and goodwill impairment.

4. Recent Accounting Pronouncements

SFAS No. 141, "Business Combinations (Revised 2007)." SFAS 141R replaces SFAS 141, "Business Combinations," and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities," would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, "Accounting for Contingencies." SFAS 141R is expected to have a significant impact on the Company's accounting for business combinations closing on or after January 1, 2009.

In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company does not expect a material impact on its consolidated financial statements from adoption of SFAS 157-2. In October 2008, the FASB issued Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Assets When the Market for that Asset is not Active.* This FSP clarifies the application of FAS 157 in a market that is not active. SFAS 157-3 was effected upon issuance. The adoption of SFAS 157-3 did not have an impact on the Company's consolidated financial statements

SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51." SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for the Company on January 1, 2009, and is not expected to have a significant impact on the Company's financial statements.

SFAS No. 162, "The Hierarchy of General Accepted Accounting Principles" SFAS 162 states that the business entity itself is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. This statement makes the GAAP hierarchy explicitly and directly applicable to preparers of financial statements. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company does not expect a material impact on its consolidated financial statements from adoption of SFAS 162.

Emerging Issues Task Force ("EITF") Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements." EITF 06-4 requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Under EITF 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions." The Company adopted EITF 06-4 effective as of January 1, 2008, and charged a $147,000 cumulative effect adjustment to the opening balance of retained earnings as of January 1, 2008.

EITF Issue No. 08-5, "Fair-Value Measurements of Liabilities with Third-Party Credit Enhancements." EITF 08-5 requires issuers of liability instruments with third-party credit enhancements to exclude the effect of the credit enhancement when measuring the liability's fair value. Upfront fees paid by the issuer for the credit enhancement would not be deferred for liabilities recorded at fair value. EITF 08-5 will be effective for the reporting period beginning after December 15, 2008. The Company does not expect a material impact on its consolidated financial statements from adoption of EITF 08-5.

EITF Issue No. 08-6, "Equity-Method Investment Accounting." EITF 08-6 concludes that the cost basis of a new equity-method investment would be determined using a cost-accumulation model, which would continue the practice of including transaction costs in the cost of investment and would exclude the value of contingent consideration. Equity-method investment should be subject