PACIFIC PREMIER BANCORP INC
Form 10-Q
November 09, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2016
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 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE	33-0743196
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

17901 VON KARMAN AVENUE, SUITE 1200, IRVINE, CALIFORNIA 92614
(Address of principal executive offices and zip code)

(949) 864-8000
(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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] 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 "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer [ ]	Accelerated filer [X]	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 Exchange Act Rule 12b-2). Yes [ ] No [X]
The number of shares outstanding of the registrant's common stock as of November 7, 2016 was 27,656,533.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands, except share data)
(unaudited)

ASSETS	September 30, 2016	December 31, 2015
Cash and due from banks	$ 18,543	$ 14,935
Interest-bearing deposits with financial institutions	85,361	63,482
Cash and cash equivalents	103,904	78,417
Interest-bearing time deposits with financial institutions	3,944	1,972
Investments held to maturity, at amortized cost (fair value of $9,004 and $9,572 as of September 30, 2016 and December 31, 2015, respectively)	8,900	9,642
Investment securities available for sale, at fair value	313,200	280,273
FHLB, FRB and other stock, at cost	29,966	22,292
Loans held for sale, at lower of cost or fair value	9,009	8,565
Loans held for investment	3,090,839	2,254,315
Allowance for loan losses	(21,843)	(17,317)
Loans held for investment, net	3,068,996	2,236,998
Accrued interest receivable	11,642	9,315
Other real estate owned	711	1,161
Premises and equipment	11,314	9,248
Deferred income taxes, net	20,001	11,511
Bank owned life insurance	40,116	39,245
Intangible assets	9,976	7,170
Goodwill	101,939	50,832
Other assets	21,213	22,958
Total Assets	$ 3,754,831	$ 2,789,599
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES:		
Deposit accounts:		
Noninterest-bearing checking	$ 1,160,394	$ 711,771
Interest-bearing:		
Checking	170,057	134,999
Money market/savings	1,157,086	827,378
Retail certificates of deposit	384,083	365,911
Wholesale/brokered certificates of deposit	188,132	155,064
Total interest-bearing	1,899,358	1,483,352
Total deposits	3,059,752	2,195,123
FHLB advances and other borrowings	136,213	196,125
Subordinated debentures	69,353	69,263
Accrued expenses and other liabilities	39,548	30,108
Total Liabilities	3,304,866	2,490,619
STOCKHOLDERS’ EQUITY:		
Preferred stock, $.01 par value; 1,000,000 authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 100,000,000 shares authorized; 27,656,533 shares at September 30, 2016 and 21,570,746 shares at December 31, 2015	273	215

Additional paid-in capital	343,231	221,487
Retained earnings	105,098	76,946
Accumulated other comprehensive income, net of tax	1,363	332
Total Stockholders' Equity	449,965	298,980
Total Liabilities and Stockholders' Equity	$ 3,754,831	$ 2,789,599

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except share data)
(unaudited)

	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
INTEREST INCOME					
Loans	$40,487	$ 39,035	$ 27,935	$114,929	$ 80,917
Investment securities and other interest-earning assets	1,942	1,839	1,812	5,879	5,527
Total interest income	42,429	40,874	29,747	120,808	86,444
INTEREST EXPENSE					
Deposits	2,136	2,010	1,719	6,215	4,914
FHLB advances and other borrowings	314	324	339	963	1,121
Subordinated debentures	970	979	993	2,859	2,946
Total interest expense	3,420	3,313	3,051	10,037	8,981
Net Interest Provision Before Provision for Loan Losses	39,009	37,561	26,696	110,771	77,463
Provision for loan losses	4,013	1,589	1,062	6,722	4,725
Net Interest Income After Provision For Loan Losses	34,996	35,972	25,634	104,049	72,738
NONINTEREST INCOME					
Loan servicing fees	288	257	248	769	156
Deposit fees	829	817	629	2,488	1,845
Net gain from sales of loans	3,122	2,124	2,544	7,152	5,265
Net gain from sales of investment securities	512	532	38	1,797	293
Other-than-temporary-impairment recovery/(loss) on investment securities	2	—	—	(205)	—
Other income	1,215	720	919	3,279	2,669
Total noninterest income	5,968	4,450	4,378	15,280	10,228
NONINTEREST EXPENSE					
Compensation and benefits	14,179	13,098	9,066	39,017	27,439
Premises and occupancy	2,633	2,559	2,120	7,550	5,980
Data processing and communications	1,223	887	681	3,021	2,099
Other real estate owned operations, net	5	(15)	9	(2)	113
FDIC insurance premiums	442	401	355	1,225	1,032
Legal, audit and professional expense	676	446	505	1,987	1,687
Marketing expense	1,591	775	567	2,996	1,785
Office and postage expense	612	573	525	1,666	1,529
Loan expense	534	540	370	1,477	826
Deposit expense	1,315	1,196	917	3,530	2,704
Merger-related expense	—	497	400	3,616	4,392
CDI amortization	525	645	344	1,514	1,002
Other expense	2,125	2,093	1,515	5,603	4,469
Total noninterest expense	25,860	23,695	17,374	73,200	55,057
Net Income Before Income Taxes	15,104	16,727	12,638	46,129	27,909
Income tax	5,877	6,358	4,801	17,977	10,459
Net Income	$9,227	$ 10,369	$ 7,837	$28,152	$ 17,450
EARNINGS PER SHARE					
Basic	$0.34	$0.38	$ 0.36	$1.05	$ 0.83
Diluted	0.33	0.37	0.36	$1.03	$ 0.82

WEIGHTED AVERAGE SHARES OUTSTANDING					
Basic	27,387,123	27,378,930	21,510,678	26,776,140	21,037,345
Diluted	27,925,351	27,845,490	21,866,840	27,245,108	21,342,204

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2016	2016	2015	2016	2015
Net income	$9,227	$10,369	$ 7,837	$28,152	$17,450
Other comprehensive income, net of tax:					
Unrealized holding gains on securities arising during the period, net of income taxes (1)	(441)	947	1,126	2,071	333
Reclassification adjustment for net gain on sale of securities included in net income, net of income taxes (2)	(296)	(308)	(22)	(1,040)	(172)
Net unrealized gain on securities, net of income taxes	(737)	639	1,104	1,031	161
Comprehensive income	$8,490	$11,008	$ 8,941	$29,183	$17,611

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(1) Income tax (benefit) on the unrealized gains (losses) on securities was $(0.4) million for the three months ended September 30, 2016, $0.7 million for the three months ended June 30, 2016, $0.8 million for the three months ended September 30, 2015, $1.5 million for the nine months ended September 30, 2016 and $2.2 million for the nine months ended September 30, 2015.
(2) Income tax (benefit) on the reclassification adjustment for net (gains) losses on sale of securities included in net income was $0.2 million for the three months ended September 30, 2016, $0.2 million for the three months ended June 30, 2016, $16,000 for the three months ended September 30, 2015, $0.8 million for the nine months ended September 30, 2016 and $0.1 million for the nine months ended September 30, 2015.

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2015	21,570,746	$ 215	$221,487	$ 76,946	$ 332	$ 298,980
Net income	—	—	—	28,152	—	28,152
Other comprehensive income	—	—	—	—	1,031	1,031
Share-based compensation expense	—	—	1,831	—	—	1,831
Issuance of restricted stock, net	218,236	—	—	—	—	—
Common stock issued	5,815,051	58	119,325	—	—	119,383
Exercise of stock options	52,500	—	588	—	—	588
Balance at September 30, 2016	27,656,533	$ 273	$343,231	$ 105,098	$ 1,363	$ 449,965
Balance at December 31, 2014	16,903,884	$ 169	$147,474	$ 51,431	$ 518	$ 199,592
Net income	—	—	—	17,450	—	17,450
Other comprehensive income	—	—	—	—	161	161
Share-based compensation expense	—	—	670	—	—	670
Common stock issued	4,480,645	45	72,207	—	—	72,252
Warrants exercised	125,316	1	688	—	—	689
Repurchase of common stock	(7,165)	—	(116)	—	—	(116)
Exercise of stock options	7,998	—	69	—	—	69
Balance at September 30, 2015	21,510,678	$ 215	$220,992	$ 68,881	$ 679	$ 290,767

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$ 28,152	$ 17,450
Adjustments to net income:		
Depreciation and amortization expense	2,107	1,718
Provision for loan losses	6,722	4,725
Share-based compensation expense	1,831	670
Loss (gain) on sale and disposal of premises and equipment	420	(15)
(Gain) loss on sale of or write down of other real estate owned	(18)	92
Net amortization on securities held for sale, net	8,060	2,804
Net accretion of discounts/premiums for loans acquired and deferred loan fees/costs	(8,832)	(1,964)
Gain on sale of investment securities available for sale	(1,797)	(293)
Originations of loans held for sale	(76,570)	—
Proceeds from the sales of and principal payments from loans held for sale	83,317	—
Gain on sale of loans	(7,152)	(5,265)
Deferred income tax benefit	(1,756)	1,006
Change in accrued expenses and other liabilities, net	1,388	209
Income from bank owned life insurance, net	(871)	(855)
Amortization of core deposit intangible	1,513	1,003
Change in accrued interest receivable and other assets, net	3,272	(6,905)
Net cash provided by operating activities	39,786	14,380

Cash flows from investing activities:				
Increase in loans, net	(370,196	)	(199,527	)
Change in other real estate owned from sales and write-downs	468		—	
Principal payments on securities available for sale	27,434		25,517	
Purchase of securities available for sale	(102,010	)	(90,032	)
Proceeds from sale or maturity of securities available for sale	229,855		26,520	
Proceeds from the sale of premises and equipment	10,263		1,623	
Purchases of premises and equipment	(10,499	)	(1,097	)
Change in FHLB, FRB, and other stock, at cost	(7,674	)	(3,054	)
Cash acquired in acquisitions	40,304		2,961	
Net cash used in investing activities	(182,055	)	(237,089	)
Cash flows from financing activities:				
Net increase in deposit accounts	228,037		172,363	
Change in FHLB advances and other borrowings, net	(60,869	)	41,540	
Proceeds from exercise of stock options and warrants	588		69	
Warrants exercised	—		689	
Repurchase of common stock	—		(116	)
Net cash provided by financing activities	167,756		214,545	
Net increase (decrease) in cash and cash equivalents	25,487		(8,164	)
Cash and cash equivalents, beginning of period	78,417		110,925	
Cash and cash equivalents, end of period	$ 103,904		$ 102,761	
Supplemental cash flow disclosures:				
Interest paid	$ 10,956		$ 9,877	
Income taxes paid	13,139		11,962	
Assets acquired (liabilities assumed and capital				

created) in acquisitions (See Note 4):		
Investment securities	190,254	53,752
FHLB and Other Stock	3,671	2,369
Loans	456,158	332,893
Core deposit intangible	4,319	2,903
Deferred income tax	7,069	4,794
Bank owned life insurance	—	11,276
Goodwill	51,106	27,882
Fixed assets	4,502	2,134
Other assets	5,610	2,402
Deposits	(636,591)	(336,018)
Other borrowings	—	(33,300)
Other liabilities	(8,843)	(1,796)
Common stock and additional paid-in capital	(119,383)	(72,252)

Accompanying notes are an integral part of these consolidated financial statements.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016
(UNAUDITED)
Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the “Corporation”) and its wholly owned subsidiaries, including Pacific Premier Bank (the “Bank”) (collectively, the “Company,” “we,” “our” or “us”). A significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of September 30, 2016 and December 31, 2015, the results of its operations and comprehensive income for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015 and the nine months ended September 30, 2016 and September 30, 2015 and the changes in stockholders’ equity and cash flows for the nine months ended September 30, 2016 and 2015. Operating results or comprehensive income for the nine months ended September 30, 2016 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2016.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Annual Report”).

The Company accounts for its investments in its wholly owned special purpose entity, PPBI Trust I, under the equity method whereby the subsidiary’s net earnings are recognized in the Company’s statement of operations.

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Pending Adoption

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The Update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset upon transfer other than inventory, eliminating the current recognition exception. Prior to Update, GAAP prohibited the recognition of current and deferred income taxes for intra-entity asset transfers until the asset was sold to an outside party. The amendments in this Update do not include new disclosure requirement; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. For public business entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company is currently evaluating the effects of ASU 2016-16 on its financial statements and disclosures.

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In October 2016, The FASB issued ASU 2016-15, Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The Update provides guidance on eight specific cash flow classification issues, which include: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investments; 7) beneficial interest in securitization transactions; and 8) separately identifiable cash flows and the application of the predominance principle. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period; however, an entity is required to adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company is currently evaluating the effects of ASU 2016-15 on its financial statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public business entities, the amendment is effective for annual periods beginning after December 15, 2019 and interim period within those annual periods. The Company is currently evaluating the effects of ASU 2016-13 on its financial statements and disclosures.

Note 3 – Significant Accounting Policies

Certain Acquired Loans: As part of business acquisitions, the Bank acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller’s allowance for loan losses. Such acquired loans are accounted for individually. The Bank estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan’s contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Goodwill and Core Deposit Intangible: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate the necessity for such impairment tests to be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible assets arising from whole bank acquisitions are amortized on a straight-line amortization method over their estimated useful lives, which range from 6 to 10 years.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

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Note 4 – Acquisitions

The Company accounted for the following transactions under the acquisition method of accounting which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of the loans, core deposit intangible, securities and deposits with the assistance of third party valuations.

The estimated fair values in these acquisitions are subject to refinement as additional information relative to the closing date fair values become available through the measurement period, which can extend for up to one year after the closing date of the transaction. While additional significant changes to the closing date fair values are not expected, any information relative to the changes in these fair values will be evaluated to determine if such changes are due to events and circumstances that existed as of the acquisition date. During the measurement period, any such changes will be recorded as part of the closing date fair value.

Security California Bancorp Acquisition

On January 31, 2016, the Company completed its acquisition of Security California Bancorp (“SCAF”) whereby we acquired $715 million in total assets, $456 million in loans and $637 million in total deposits. Under the terms of the merger agreement, each share of SCAF common stock was converted into the right to receive 0.9629 shares of the Corporation’s common stock. The value of the total deal consideration was $120.2 million, which includes $788,000 of aggregate cash consideration to the holders of SCAF stock options and the issuance of 5,815,051 shares of the Corporation’s common stock, valued at $119.4 million based on a closing stock price of $20.53 per share on January 29, 2016.

SCAF was the holding company of Security Bank of California, a Riverside, California, based state-chartered bank with six branches located in Riverside County, San Bernardino County and Orange County.

Goodwill in the amount of $51.1 million was recognized in the SCAF acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

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The following table represents the assets acquired and liabilities assumed of SCAF as of January 31, 2016 and the provisional fair value adjustments and amounts recorded by the Company in 2016 under the acquisition method of accounting:

	SCAF Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED	(in thousands)		
Cash and cash equivalents	$40,947	$ —	$40,947
Interest-bearing deposits with financial institutions	1,972	—	1,972
Investment securities	191,881	(1,627)	190,254
Loans, gross	467,197	(11,039)	456,158
Allowance for loan losses	(7,399)	7,399	—
Fixed assets	5,335	(833)	4,502
Core deposit intangible	493	3,826	4,319
Deferred tax assets	5,618	1,451	7,069
Other assets	10,589	(1,308)	9,281
Total assets acquired	$716,633	$ (2,131)	$714,502
LIABILITIES ASSUMED			
Deposits	$636,450	$ 141	$636,591
Other Liabilities	9,063	(220)	8,843
Total liabilities assumed	645,513	(79)	645,434
Excess of assets acquired over liabilities assumed	$71,120	$ (2,052)	69,068
Consideration paid			120,174
Goodwill recognized			$51,106

The fair values are preliminary estimates and are subject to adjustment for up to one year after the merger date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. In the second quarter of 2016, the Company made a $146,000 adjustment to fixed assets and goodwill. As of September 30, 2016, the Company has not yet finalized its fair values with this acquisition.

Independence Bank Acquisition

On January 26, 2015, the Company completed its acquisition of Independence Bank (“IDPK”) in exchange for consideration valued at $79.8 million, which consisted of $6.1 million of cash consideration for IDPK common stockholders, $1.5 million of aggregate cash consideration to the holders of IDPK stock options and warrants, $1.3 million fair market value of warrants assumed and the issuance of 4,480,645 shares of the Corporation’s common stock, which was valued at $70.9 million based on the closing stock price of the Corporation’s common stock on January 26, 2015 of $15.83 per share.

IDPK was a Newport Beach, California based state-chartered bank. The acquisition was an opportunity for the Company to strengthen its competitive position as one of the premier community banks headquartered in Southern California. Additionally, the IDPK acquisition enhanced and connected the Company’s footprint in Southern California.

Goodwill in the amount of $27.9 million was recognized in the IDPK acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

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The following table represents the assets acquired and liabilities assumed of IDPK as of January 26, 2015 and the fair value adjustments and amounts recorded by the Company in 2015 under the acquisition method of accounting:

	IDPK Book Value	Fair Value Adjustments	Fair Value
	(in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$10,486	$ —	$10,486
Investment securities	56,503	(382)	56,121
Loans, gross	339,502	(6,609)	332,893
Allowance for loan losses	(3,301)	3,301	—
Deferred income taxes	5,266	(472)	4,794
Bank owned life insurance	11,276	—	11,276
Core deposit intangible	904	1,999	2,903
Other assets	3,756	780	4,536
Total assets acquired	$424,392	$ (1,383)	$423,009
LIABILITIES ASSUMED			
Deposits	$335,685	$ 333	$336,018
FHLB advances	33,300	—	33,300
Other liabilities	1,916	(120)	1,796
Total liabilities assumed	370,901	213	371,114
Excess of assets acquired over liabilities assumed	$53,491	$ (1,596)	51,895
Consideration paid			79,777
Goodwill recognized			$27,882

For loans acquired from SCAF and IDPK, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows:

	Acquired Loans	
	SCAF	IDPK
	(in thousands)	
Contractual amounts due	$539,806	$453,987
Cash flows not expected to be collected	2,765	3,795
Expected cash flows	537,041	450,192
Interest component of expected cash flows	80,883	117,299
Fair value of acquired loans	$456,158	$332,893

In accordance with generally accepted accounting principles, there was no carryover of the allowance for loan losses that had been previously recorded by SCAF or IDPK.

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The operating results of the Company for the nine months ending September 30, 2016 include the operating results of SCAF and IDPK since their respective acquisition dates. The operating results of the Company for the nine months ending September 30, 2015 include the operating results of IDPK since its acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisitions of SCAF and IDPK were effective as of January 1, 2015. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

	Nine Months Ended September 30,	
	2016	2015
	(dollars in thousands)	
Net interest and other income	$121,476	$104,315
Net income	26,179	20,343
Basic earnings per share	0.98	0.76
Diluted earnings per share	0.96	0.75

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Note 5 – Investment Securities

The amortized cost and estimated fair value of securities were as follows:

	September 30, 2016			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Available-for-sale:				
Corporate	$23,255	$ 75	$ —	$23,330
Municipal bonds	114,954	1,923	(39)	116,838
Collateralized mortgage obligation	33,644	228	(6)	33,866
Mortgage-backed securities	139,032	525	(391)	139,166
Total available-for-sale	310,885	2,751	(436)	313,200
Held-to-maturity:				
Mortgage-backed securities	7,697	104	—	7,801
Other	1,203	—	—	1,203
Total held-to-maturity	8,900	104	—	9,004
Total securities	$319,785	$ 2,855	$ (436)	$322,204

	December 31, 2015			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Available-for-sale:				
Municipal bonds	$128,546	$ 1,796	$ (97)	$130,245
Collateralized mortgage obligation	24,722	4	(183)	24,543
Mortgage-backed securities	126,443	153	(1,111)	125,485
Total available-for-sale	279,711	1,953	(1,391)	$280,273
Held-to-maturity:				
Mortgage-backed securities	8,400	—	(70)	8,330
Other	1,242	—	—	1,242
Total held-to-maturity	9,642	—	(70)	9,572
Total securities	$289,353	$ 1,953	$ (1,461)	$289,845

At September 30, 2016, mortgage-backed securities (“MBS”) with an estimated par value of $61.1 million and a fair value of $63.8 million were pledged as collateral for the Bank’s three reverse repurchase agreements which totaled $28.5 million and homeowner’s association (“HOA”) reverse repurchase agreements which totaled $17.7 million.

The Company reviews individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is temporary because (i) those declines were due to interest rate changes and not to a deterioration in the creditworthiness of the issuers of those investment securities, and (ii) we have the ability to hold those securities until there is a recovery in their values or until their maturity.

If it is probable that the Company will be unable to collect all amounts due according to contractual terms of the debt security not impaired at acquisition, an other-than-temporary impairment ("OTTI") shall be considered to have occurred. If an OTTI occurs, the cost basis of the security will be written down to its fair value as the new cost basis and the write down accounted for as a realized loss.

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The Company realized OTTI recovery of $2,000 for the three months ended September 30, 2016, which relates to investment income from previously charged-off investments. The Company did not realize any OTTI recoveries or losses for the three months ended June 30, 2016 and September 30, 2015.

During the nine months ended September 30, 2016, the Company realized OTTI losses net of recoveries of $205,000. A $207,000 OTTI was taken in the first quarter of 2016, related to a CRA investment purchased in June of 2014 with a par value of $50, and a book value of $500,000. In March of 2016 the shareholders of the investment voted to approve a sale of the institution at a per share acquisition price less the Bank's book value, with an expected closing by mid-2016. As a result, the Bank's current holdings were written down and the loss recognized. The Company did not realize any OTTI losses for the nine months ended September 30, 2015.

During the three months ended September 30, 2016, June 30, 2016 and September 30, 2015, the Company recognized gross gains on sales of available-for-sale securities in the amount of $512,000, $532,000 and $52,000, respectively. During the three months ended September 30, 2016 and June 30, 2016, the Company did not recognize any gross losses on the sales of available-for sale securities. During the three months ended September 30, 2015, the Company recognized gross losses on sales of available-for-sale securities in the amount of$14,000. The Company had net proceeds from the sale of available-for-sale securities of $16.6 million, $21 million and $10.4 million during the three months ended September 30, 2016, June 30, 2016 and September 30, 2015, respectively.

During the nine months ended September 30, 2016 and September 30, 2015, the Company recognized gross gains on sales of available-for-sale securities in the amount of $1.8 million and $316,000. During the nine months ended September 30, 2016 and September 30, 2015, the Company recognized gross losses on sales of available-for-sale securities in the amount of $9,000 and $23,000. The Company had net proceeds from the sale of available-for-sale securities of $223 million and $26.5 million during the nine months ended September 30, 2016 and September 30, 2015, respectively.

The table below shows the number, fair value and gross unrealized holding losses of the Company’s investment securities by investment category and length of time that the securities have been in a continuous loss position.

	September 30, 2016								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Available-for-sale:									
Municipal bonds	17	$8,376	$ (39)	—	$—	$ —	17	$8,376	$ (39)
Collateralized mortgage obligation	1	4,863	(6)	—	—	—	1	4,863	(6)
Mortgage-backed securities	19	51,088	(216)	5	15,117	(175)	24	66,205	(391)
Total securities available-for-sale	37	$64,327	$ (261)	5	$15,117	$ (175)	42	$79,444	$ (436)

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	December 31, 2015			12 months or Longer			Total		
	Less than 12 months								
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Available-for-sale:									
Municipal bonds	32	$15,516	$ (61)	6	$3,349	$ (36)	38	$18,865	$ (97)
Collateralized mortgage obligation	5	22,771	(183)	—	—	—	5	22,771	(183)
Mortgage-backed securities	34	83,488	(679)	3	12,935	(432)	37	96,423	(1,111)
Total securities available-for-sale	71	121,775	(923)	9	16,284	(468)	80	138,059	(1,391)
Held-to-maturity:									
Mortgage-backed securities	1	8,330	(70)	—	—	—	1	8,330	(70)
Total securities held-to-maturity	1	8,330	(70)	—	—	—	1	8,330	(70)
Total securities	72	$130,105	$ (993)	9	$16,284	$ (468)	81	$146,389	$ (1,461)

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The amortized cost and estimated fair value of investment securities at September 30, 2016, by contractual maturity are shown in the table below.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)									
Available-for-sale:										
Corporate	$—	$—	$—	$—	$17,255	$17,330	$6,000	$6,000	$23,255	$23,330
Municipal bonds	1,023	1,024	29,030	29,338	37,980	38,870	46,921	47,606	114,954	116,838
Collateralized mortgage obligation	—	—	—	—	1,493	1,497	32,151	32,369	33,644	33,866
Mortgage-backed securities	—	—	—	—	19,366	19,464	119,666	119,702	139,032	139,166
Total securities available-for-sale	1,023	1,024	29,030	29,338	76,094	77,161	204,738	205,677	310,885	313,200
Held-to-maturity:										
Mortgage-backed securities	—	—	—	—	—	—	7,697	7,801	7,697	7,801
Other	—	—	—	—	—	—	1,203	1,203	1,203	1,203
Total securities held-to-maturity	—	—	—	—	—	—	8,900	9,004	8,900	9,004
Total securities	$1,023	$1,024	$29,030	$29,338	$76,094	$77,161	$213,638	$214,681	$319,785	$322,204

Unrealized gains and losses on investment securities available for sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At September 30, 2016, the Company had accumulated other comprehensive income of $2.3 million, or $1.4 million net of tax, compared to accumulated other comprehensive income of $562,000, or $332,000 net of tax, at December 31, 2015.

FHLB, FRB and other stock

At September 30, 2016, the Company had $14.4 million in Federal Home Loan Bank ("FHLB") stock, $10.9 million in Federal Reserve Bank of San Francisco ("FRB") stock, and $4.7 million in other stock, all carried at cost. During the three months ended September 30, 2016 and December 31, 2015, FHLB did not repurchase any of the Company's excess FHLB stock through their stock repurchase program. The Company evaluates its investments in FHLB and other stock for impairment periodically, including their capital adequacy and overall financial condition. No impairment losses have been recorded through September 30, 2016.

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Note 6 – Loans Held for Investment

The following table sets forth the composition of our loan portfolio in dollar amounts at the dates indicated:

	September 30, 2016	December 31, 2015
	(in thousands)	
Business loans:		
Commercial and industrial	$537,809	$ 309,741
Franchise	431,618	328,925
Commercial owner occupied (1)	460,068	294,726