BBCN BANCORP INC
Form 10-Q
November 09, 2015
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, 2015
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: 000-50245

BBCN BANCORP, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 95-4849715<br>(I.R.S. Employer<br>Identification Number) |
| 3731 Wilshire Boulevard, Suite 1000, Los Angeles, California<br>(Address of principal executive offices) | 90010<br>(ZIP Code) |

(213) 639-1700
(Registrant’s telephone number, including area code)
(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 x No o

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | o |
| Non-accelerated filer | o | Smaller Reporting Company | 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

As of November 2, 2015, there were 79,553,460 outstanding shares of the issuer’s Common Stock, $0.001 par value.

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Forward-Looking Statements

Some statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements relate to, among other things, expectations regarding the business environment in which we operate, projections of future performance, perceived opportunities in the market and statements regarding our business strategies, objectives and vision. Forward-looking statements include, but are not limited to, statements preceded by, followed by or that include the words “will,” “believes,” “expects,” “anticipates,” “intends,” “plans,” “estimates” or similar expressions. With respect to any such forward-looking statements, the Company claims the protection provided for in the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties. Our actual results, performance or achievements may differ significantly from the results, performance or achievements expressed or implied in any forward-looking statements. The risks and uncertainties include: possible deterioration in economic conditions in our areas of operation; interest rate risk associated with volatile interest rates and related asset-liability matching risk; liquidity risks; risk of significant non-earning assets, and net credit losses that could occur, particularly in times of weak economic conditions or times of rising interest rates; and regulatory risks associated with current and future regulations. For additional information concerning these and other risk factors, see Part II, Item 1A. Risk Factors contained herein and Part I, Item 1A. Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2014.
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.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

BBCN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | (Unaudited) September 30, 2015 | December 31, 2014 |
|---|---|---|
| ASSETS | (In thousands, except share data) | |
| Cash and cash equivalents: | | |
| Cash and due from banks | $81,026 | $86,119 |
| Interest bearing deposits in other banks | 197,349 | 376,041 |
| Total cash and cash equivalents | 278,375 | 462,160 |
| Other investments | 40,650 | — |
| Securities available for sale, at fair value | 976,962 | 796,523 |
| Loans held for sale, at the lower of cost or fair value | 25,103 | 28,311 |
| Loans receivable (net of allowance for loan losses of $71,110 and $67,758 at September 30, 2015 and December 31, 2014, respectively) | 5,901,614 | 5,497,434 |
| Other real estate owned (“OREO”), net | 21,350 | 21,938 |
| Federal Home Loan Bank (“FHLB”) stock, at cost | 18,964 | 28,324 |
| Premises and equipment (net of accumulated depreciation and amortization of $34,550 and $29,915 at September 30, 2015 and December 31, 2014, respectively) | 34,798 | 30,722 |
| Accrued interest receivable | 13,981 | 13,634 |
| Deferred tax assets, net | 59,098 | 63,023 |
| Customers’ liabilities on acceptances | 1,294 | 1,889 |
| Bank owned life insurance (“BOLI”) | 46,741 | 45,927 |
| Investments in affordable housing partnerships | 20,434 | 10,401 |
| Goodwill | 105,401 | 105,401 |
| Core deposit intangible assets, net | 3,086 | 3,887 |
| Servicing assets | 11,505 | 10,341 |
| Other assets | 23,646 | 20,415 |
| Total assets | $7,583,002 | $7,140,330 |

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BBCN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | (Unaudited) September 30, 2015 | December 31, 2014 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | (In thousands, except share data) | |
| LIABILITIES: | | |
| Deposits: | | |
| Noninterest bearing | $1,631,672 | $1,543,018 |
| Interest bearing: | | |
| Money market and NOW accounts | 1,783,760 | 1,663,855 |
| Savings deposits | 193,895 | 198,205 |
| Time deposits of $100,000 or more | 1,716,267 | 1,667,367 |
| Other time deposits | 703,271 | 621,007 |
| Total deposits | 6,028,865 | 5,693,452 |
| FHLB advances | 530,689 | 480,975 |
| Subordinated debentures | 42,284 | 42,158 |
| Accrued interest payable | 6,231 | 5,855 |
| Acceptances outstanding | 1,294 | 1,889 |
| Other liabilities | 44,070 | 33,228 |
| Total liabilities | 6,653,433 | 6,257,557 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, $0.001 par value; authorized 150,000,000 shares at September 30, 2015 and December 31, 2014; issued and outstanding, 79,553,460 and 79,503,552 shares at September 30, 2015 and December 31, 2014, respectively | 80 | 79 |
| Additional paid-in capital | 541,349 | 541,589 |
| Retained earnings | 384,133 | 339,400 |
| Accumulated other comprehensive income, net | 4,007 | 1,705 |
| Total stockholders' equity | 929,569 | 882,773 |
| Total liabilities and stockholders' equity | $7,583,002 | $7,140,330 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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BBCN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands, except per share data) | | | |
| INTEREST INCOME: | | | | |
| Interest and fees on loans | $73,650 | $72,437 | $214,537 | $212,818 |
| Interest on securities | 4,670 | 3,999 | 13,105 | 12,171 |
| Interest on federal funds sold and other investments | 739 | 648 | 3,046 | 1,901 |
| Total interest income | 79,059 | 77,084 | 230,688 | 226,890 |
| INTEREST EXPENSE: | | | | |
| Interest on deposits | 8,390 | 7,419 | 24,115 | 21,381 |
| Interest on FHLB advances | 1,514 | 1,373 | 4,138 | 3,894 |
| Interest on other borrowings | 394 | 385 | 1,160 | 1,252 |
| Total interest expense | 10,298 | 9,177 | 29,413 | 26,527 |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | 68,761 | 67,907 | 201,275 | 200,363 |
| PROVISION FOR LOAN LOSSES | 600 | 4,256 | 3,100 | 10,278 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 68,161 | 63,651 | 198,175 | 190,085 |
| NONINTEREST INCOME: | | | | |
| Service fees on deposit accounts | 3,170 | 3,456 | 9,261 | 10,288 |
| International service fees | 838 | 958 | 2,656 | 3,074 |
| Loan servicing fees, net | 800 | 798 | 2,374 | 2,376 |
| Wire transfer fees | 1,001 | 876 | 2,635 | 2,700 |
| Other income and fees | 3,668 | 1,674 | 7,328 | 4,941 |
| Net gains on sales of SBA loans | 3,390 | 3,578 | 9,553 | 9,112 |
| Net gains on sales of other loans | 26 | — | 253 | — |
| Net gains on sales of securities available for sale | — | — | 424 | — |
| Net gains on sales of OREO | 334 | 29 | 516 | 466 |
| Total noninterest income | 13,227 | 11,369 | 35,000 | 32,957 |
| NONINTEREST EXPENSE: | | | | |
| Salaries and employee benefits | 21,457 | 19,346 | 63,570 | 56,428 |
| Occupancy | 4,941 | 4,722 | 14,443 | 14,060 |
| Furniture and equipment | 2,329 | 1,916 | 6,915 | 5,942 |
| Advertising and marketing | 1,309 | 1,535 | 4,184 | 4,131 |
| Data processing and communication | 2,192 | 2,206 | 7,004 | 6,626 |
| Professional fees | 1,289 | 1,567 | 3,966 | 4,195 |
| FDIC assessments | 1,027 | 1,135 | 3,048 | 3,238 |
| Credit related expenses | 1,397 | 3,531 | 5,562 | 7,969 |
| Other | 2,858 | 3,462 | 8,040 | 10,845 |
| Total noninterest expense | 38,799 | 39,420 | 116,732 | 113,434 |
| INCOME BEFORE INCOME TAX PROVISION | 42,589 | 35,600 | 116,443 | 109,608 |
| INCOME TAX PROVISION | 17,497 | 14,180 | 47,053 | 43,680 |
| NET INCOME | $25,092 | $21,420 | $69,390 | $65,928 |
| EARNINGS PER COMMON SHARE | | | | |
| Basic | $0.32 | $0.27 | $0.87 | $0.83 |

| | | | | |
|---|---|---|---|---|
| Diluted | $0.32 | $0.27 | $0.87 | $0.83 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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BBCN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| Net income | $25,092 | $21,420 | $69,390 | $65,928 |
| Other comprehensive income (loss): | | | | |
| Unrealized gains (losses) on securities available for sale and interest only strips | 7,617 | (3,004) | 4,426 | 14,790 |
| Reclassification adjustments for gains realized in income | — | — | (424) | — |
| Tax expense (benefit) | 3,235 | (1,341) | 1,700 | 6,106 |
| Change in unrealized gains or losses on securities available for sale and interest only strips | 4,382 | (1,663) | 2,302 | 8,684 |
| Total comprehensive income | $29,474 | $19,757 | $71,692 | $74,612 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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BBCN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

| | Common stock | | | | |
|---|---|---|---|---|---|
| | Shares | Amount | Additional paid-in capital | Retained earnings | Accumulated other comprehensive (loss) income, net |
| | (Dollars in thousands, except share data) | | | | |
| BALANCE, JANUARY 1, 2014 | 79,441,525 | $79 | $540,876 | $278,604 | $ (10,185) |
| Issuance of additional shares pursuant to various stock plans | 52,837 | | | | |
| Stock-based compensation | | | 488 | | |
| Redemption of Foster common stock | 2,969 | | 42 | | |
| Cash dividends declared on common stock | | | | (19,868) | |
| Comprehensive income: | | | | | |
| Net income | | | | 65,928 | |
| Other comprehensive income | | | | | 8,684 |
| BALANCE, SEPTEMBER 30, 2014 | 79,497,331 | $79 | $541,406 | $324,664 | $ (1,501) |
| | | | | | |
| BALANCE, JANUARY 1, 2015 | 79,503,552 | $79 | $541,589 | $339,400 | $ 1,705 |
| Issuance of additional shares pursuant to various stock plans | 49,908 | 1 | (22) | | |
| Tax effect of stock plans | | | 43 | | |
| Stock-based compensation | | | 889 | | |
| Redemption of common stock warrant | | | (1,150) | | |
| Cash dividends declared on common stock | | | | (24,657) | |
| Comprehensive income: | | | | | |
| Net income | | | | 69,390 | |
| Other comprehensive income | | | | | 2,302 |
| BALANCE, SEPTEMBER 30, 2015 | 79,553,460 | $80 | $541,349 | $384,133 | $ 4,007 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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BBCN BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $69,390 | $65,928 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation, amortization, net of discount accretion | (2,878) | (10,983) |
| Stock-based compensation expense | 889 | 488 |
| Provision for loan losses | 3,100 | 10,278 |
| Valuation adjustment of OREO | 1,145 | 1,074 |
| Proceeds from sales of loans held for sale | 120,352 | 112,686 |
| Originations of loans held for sale | (107,895) | (107,792) |
| Net gains on sales of SBA and other loans | (9,806) | (9,112) |
| Net change in BOLI | (814) | (874) |
| Net gains on sales of securities available for sale | (424) | — |
| Net gains on sales of OREO | (516) | (466) |
| Loss on disposal of equipment | 64 | — |
| Additions in servicing assets | (3,570) | (2,943) |
| Change in accrued interest receivable | (347) | 261 |
| Change in deferred income taxes, net | 2,225 | 15,479 |
| Change in investments in affordable housing partnership | 1,022 | 552 |
| Change in FDIC loss share receivable | — | 1,110 |
| Change in other assets | (2,658) | 12,873 |
| Change in accrued interest payable | 376 | 1,352 |
| Change in other liabilities | 10,842 | 5,638 |
| Net cash provided by operating activities | 80,497 | 95,549 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net change in loans receivable | (407,095) | (350,828) |
| Proceeds from sales of securities available for sale | 22,510 | — |
| Proceeds from sales of OREO | 7,122 | 7,072 |
| Proceeds from sales of other loans held for sale | 7,438 | — |
| Proceeds from sales and disposals of equipment | 7 | — |
| Purchase of premises and equipment | (9,419) | (4,960) |
| Purchases of investments in affordable housing partnerships | (11,055) | — |
| Purchases of other investments | (40,651) | — |
| Purchase of securities available for sale | (310,572) | (82,552) |
| Purchase of FHLB stock | (150) | (536) |
| Redemption of FHLB stock | 9,510 | 116 |
| Proceeds from matured or paid-down securities available for sale | 108,287 | 89,719 |
| Net cash used in investing activities | (624,068) | (341,969) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in deposits | 335,571 | 362,367 |
| Redemption of subordinated debentures | — | (15,464) |
| Proceeds from FHLB advances | 250,000 | 60,000 |
| Repayment of FHLB advances | (200,000) | (14,000) |
| Redemption of common stock warrant | (1,150) | — |

| | | |
|---|---|---|
| Cash dividends paid on Common Stock | (24,657) | (19,868) |
| Issuance of additional stock pursuant to various stock plans | (21) | — |
| Tax effects of issuance of shares from various stock plans | 43 | — |
| Net cash provided by financing activities | 359,786 | 373,035 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (183,785) | 126,615 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 462,160 | 316,705 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $278,375 | $443,320 |
| | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | $29,037 | $25,175 |
| Income taxes paid | $41,334 | $18,423 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES | | |
| Transfer from loans receivable to OREO | $7,759 | $6,554 |
| Transfer from loans receivable to other loans held for sale | $6,881 | $2,611 |
| Loans to facilitate sales of loans held for sale | $— | $5,250 |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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BBCN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BBCN Bancorp, Inc.

BBCN Bancorp, Inc. (“BBCN Bancorp” on a parent-only basis and the “Company” on a consolidated basis), headquartered in Los Angeles, California, is the holding company for BBCN Bank (“BBCN Bank” or the “Bank”). The Bank has branches in California, New Jersey, and the New York City, Chicago, Seattle and Washington, D.C. metropolitan areas, as well as loan production offices in Atlanta, Annandale, Dallas, Denver, Portland, Seattle, and Northern California. The Company is a corporation organized under the laws of the state of Delaware and a bank holding company registered under the Bank Holding Company Act of 1956, as amended.

2. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), except for the Condensed Consolidated Statement of Financial Condition as of December 31, 2014 which was derived from audited financial statements included in the Company’s 2014 Annual Report on Form 10-K. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations.

The condensed consolidated financial statements include the accounts of BBCN Bancorp and its wholly owned subsidiaries, principally BBCN Bank. All intercompany transactions and balances have been eliminated in consolidation. The Company has made all adjustments, consisting solely of normal recurring accruals, that in the opinion of management, are necessary to fairly present the Company’s financial position at September 30, 2015 and the results of operations for the three and nine months then ended. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. The results of operations for the interim periods are not necessarily indicative of results to be anticipated for the full year.

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are susceptible to change in the near term relate to the determination of the allowance and provision for loan losses, the evaluation of other than temporary impairment of investment securities, accounting for derivatives and hedging activities, the determination of the carrying value for cash surrender value of life insurance, the determination of the carrying value of goodwill and other intangible assets, accounting for deferred tax assets and related valuation allowances, the determination of the fair values of investment securities and other financial instruments, accounting for lease arrangements, accounting for incentive compensation, profit sharing and bonus payments, and the valuation of servicing assets.

These unaudited condensed consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in the Company’s 2014 Annual Report on Form 10-K.

There have been no material changes or updates to the Summary of Significant Accounting Policies as disclosed in the Annual Report on Form 10-K for the year ended December 31, 2014, except for an additional disclosure related to the Company’s Other investments as follows:

Other investments—Other investments have original maturities greater than 90 days. Other investments are held-to-maturity and recorded at amortized cost.

Recent Accounting Pronouncements:

FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This update to the ASC is the culmination of efforts by the FASB and the International Accounting Standards Board (IASB) to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle of revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. In September 2015, ASU 2015-14 deferred the effective date of ASU 2014-9 by one year. As such, the amendments are effective for annual reporting periods

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beginning after December 15, 2017, including interim periods within that reporting period and early application is not allowed. The adoption of ASU 2014-9 is not expected to have a significant impact on the Company’s financial statements.

FASB ASU No. 2015-10, Technical Corrections and Improvements. The amendments in ASU 2015-10 represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments that require transition guidance are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. The adoption of ASU 2015-10 is not expected to have a significant impact on the Company’s financial statements.

FASB ASU No. 2015-16, Business Combinations (Topic 805). The FASB issued guidance that requires an acquirer in a business combination to recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments also require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments become effective for fiscal years beginning after December 15, 2016. The adoption of ASU 2015-16 is not expected to have a significant impact on the Company’s financial statements.

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3. Stock-Based Compensation

The Company has a stock-based incentive plan, the 2007 BBCN Bancorp Equity Incentive Plan (the “2007 Plan”). The 2007 Plan, approved by the Company’s stockholders on May 31, 2007, was amended and restated on July 25, 2007 and again on December 1, 2011. The 2007 Plan provides for grants of stock options, stock appreciation rights (“SARs”), restricted stock, performance shares and performance units (sometimes referred to individually or collectively as “awards”) to non-employee directors, officers, employees and consultants of the Company. Stock options may be either incentive stock options (“ISOs”), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or nonqualified stock options (“NQSOs”).

The 2007 Plan gives the Company flexibility to (i) attract and retain qualified non-employee directors, executives and other key employees and consultants with appropriate equity-based awards; (ii) motivate high levels of performance; (iii) recognize employee contributions to the Company’s success; and (iv) align the interests of the 2007 Plan participants with those of the Company’s stockholders. The exercise price for shares under an ISO may not be less than 100% of fair market value on the date the award is granted under Code Section 422. Similarly, under the terms of the 2007 Plan the exercise price for SARs and NQSOs may not be less than 100% of fair market value on the date of grant. Performance units are awarded to a participant at the market price of the Company’s common stock on the date of award (after the lapse of the restriction period and the attainment of the performance criteria). No minimum exercise price is prescribed for performance shares and restricted stock awarded under the 2007 Plan.

ISOs, SARs and NQSOs have vesting periods of three to five years and have 10-year contractual terms. Restricted stock, performance shares, and performance units will be granted with a restriction period of not less than one year from the grant date for performance-based awards and not more than three years from the grant date for time-based vesting of grants. Compensation expense for awards is recognized over the vesting period.

The Company has another stock-based incentive plan, the 2006 Stock Incentive Plan, adopted April 12, 2006, as amended and restated June 13, 2007 (the “2006 Plan”). The 2006 Plan provides for the granting of incentive stock options to officers and employees and non-qualified stock options and restricted stock awards to employees (including officers) and non-employee directors. The option prices of all options granted under the 2006 Plan may not be less than 100% of the fair market value at the date of grant. All options granted generally vest at the rate of 20% per year except that the options granted to the non-employee directors vest at the rate of 33% per year. All options not exercised generally expire ten years after the date of grant.

Under the 2007 Plan and 2006 Plan, 2,490,787 shares were available for future grants as of September 30, 2015.

The total shares reserved for issuance will serve as the underlying value for all equity awards under the 2007 Plan and 2006 Plan. With the exception of the shares underlying stock options and restricted stock awards, the board of directors may choose to settle the awards by paying the equivalent cash value or by delivering the appropriate number of shares.

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The following is a summary of stock option activity under the 2007 Plan and 2006 Plan for the nine months ended September 30, 2015:

| | Number of Shares | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding - January 1, 2015 | 591,652 | $18.97 | | |
| Granted | — | — | | |
| Exercised | — | — | | |
| Expired | (83,902) | 16.02 | | |
| Forfeited | — | — | | |
| Outstanding - September 30, 2015 | 507,750 | $19.46 | 2.51 | $140 |
| Options exercisable - September 30, 2015 | 339,750 | $21.25 | 2.51 | $140 |

The following is a summary of restricted and performance unit activity under the 2007 Plan and 2006 Plan for the nine months ended September 30, 2015:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding - January 1, 2015 | 175,668 | $13.51 |
| Granted | 18,000 | 14.26 |
| Vested | (54,483) | 12.27 |
| Forfeited | (713) | 10.42 |
| Outstanding - September 30, 2015 | 138,472 | $14.10 |

The total fair value of restricted performance units vested for the nine months ended September 30, 2015 and 2014 was $746 thousand and $877 thousand, respectively.
The amount charged against income related to stock-based payment arrangements was $261 thousand and $206 thousand for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, $889 thousand and $488 thousand, respectively, of stock-based payment arrangements were charged against income.
The income tax benefit recognized was $107 thousand and $82 thousand for the three months ended September 30, 2015 and 2014, respectively, and the amount recognized was $359 thousand and $197 thousand for the nine months ended September 30, 2015 and 2014, respectively.
At September 30, 2015, the unrecognized compensation expense related to non-vested stock option grants was $706 thousand which is expected to be recognized over a weighted average vesting period of 3.55 years. At September 30, 2015, the unrecognized compensation expense related to non-vested restricted units and performance units was $1.4 million which is expected to be recognized over a weighted average vesting period of 3.00 years.

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4. Earnings Per Share ("EPS")

Basic EPS does not reflect the possibility of dilution that could result from the issuance of additional shares of common stock upon exercise or conversion of outstanding securities, and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted to common stock that would then share in our earnings. For the three months ended September 30, 2015, stock options and restricted shares awards for 532,130 shares of common stock were excluded in computing diluted earnings per common share because they were antidilutive. For the nine months ended September 30, 2015, stock options and restricted share awards for 575,300 shares of common stock were excluded in computing diluted earnings per common share because they were antidilutive. Additionally, warrants issued pursuant to the Company's participation in the U.S. Treasury's TARP Capital Purchase Plan, to purchase 19,151 shares and 18,607 shares of common stock were antidilutive and excluded for the three and nine months ended September 30, 2015 and 2014, respectively.

The following tables show the computation of basic and diluted EPS for the three and nine months ended September 30, 2015 and 2014.

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Net Income (Numerator) | Weighted-Average Shares (Denominator) | Per Share (Amount) | Net Income (Numerator) | Weighted-Average Shares (Denominator) | Per Share (Amount) |
| | (In thousands, except share and per share data) | | | | | |
| Basic EPS - common stock | $25,092 | 79,552,873 | $0.32 | $21,420 | 79,493,917 | $0.27 |
| Effect of dilutive securities: | | | | | | |
| Stock options and performance units | | 31,663 | | | 36,044 | |
| Common stock warrants | | — | | | 71,114 | |
| Diluted EPS - common stock | $25,092 | 79,584,536 | $0.32 | $21,420 | 79,601,075 | $0.27 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Net Income (Numerator) | Weighted-Average Shares (Denominator) | Per Share (Amount) | Net Income (Numerator) | Weighted-Average Shares (Denominator) | Per Share (Amount) |
| | (In thousands, except share and per share data) | | | | | |
| Basic EPS - common stock | $69,390 | 79,545,681 | $0.87 | $65,928 | 79,486,958 | $0.83 |
| Effect of Dilutive Securities: | | | | | | |
| Stock Options and Performance Units | | 26,828 | | | 46,749 | |
| Common stock warrants | | 33,715 | | | 83,610 | |
| Diluted EPS - common stock | $69,390 | 79,606,224 | $0.87 | $65,928 | 79,617,317 | $0.83 |

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5. Securities Available for Sale

The following is a summary of securities available for sale as of the dates indicated:

| | At September 30, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In thousands) | | | |
| Debt securities: | | | | |
| U.S. Government agency and U.S. Government sponsored enterprises | | | | |
| Collateralized mortgage obligations | $408,241 | $3,006 | $(1,679) | $409,568 |
| Mortgage-backed securities | 495,882 | 6,097 | (1,075) | 500,904 |
| Trust preferred securities | 4,542 | — | (692) | 3,850 |
| Municipal bonds | 44,208 | 1,045 | (30) | 45,223 |
| Total debt securities | 952,873 | 10,148 | (3,476) | 959,545 |
| Mutual funds | 17,425 | — | (8) | 17,417 |
| | $970,298 | $10,148 | $(3,484) | $976,962 |

| | At December 31, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (In thousands) | | | |
| Debt securities: | | | | |
| U.S. Government agency and U.S. Government sponsored enterprises | | | | |
| Collateralized mortgage obligations | $304,947 | $1,376 | $(3,549) | $302,774 |
| Mortgage-backed securities | 460,487 | 6,528 | (1,526) | 465,489 |
| Trust preferred securities | 4,531 | — | (544) | 3,987 |
| Municipal bonds | 6,487 | 443 | — | 6,930 |
| Total debt securities | 776,452 | 8,347 | (5,619) | 779,180 |
| Mutual funds | 17,425 | — | (82) | 17,343 |
| | $793,877 | $8,347 | $(5,701) | $796,523 |

As of September 30, 2015 and December 31, 2014, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders’ equity.

For the three months ended September 30, 2015 and 2014, $7.6 million of unrealized gains and $3.0 million of unrealized losses, respectively, were included in accumulated other comprehensive income. For the nine months ended September 30, 2015 and 2014, $4.4 million of unrealized gains and $14.8 million of unrealized gains, respectively, were included in accumulated other comprehensive income. There were no gains or losses reclassified out of accumulated other comprehensive income for the three months ended September 30, 2015 and 2014. A total of $424 thousand and $0 of net gains on sales of securities were reclassified out of accumulated other comprehensive income into earnings for the nine months ended September 30, 2015 and 2014, respectively.

The proceeds from sales of securities and the associated gross gains and losses recorded in earnings are listed below:

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| Proceeds | $— | $— | $22,510 | $— |
| Gross gains | — | — | 424 | — |
| Gross losses | — | — | — | — |

The amortized cost and estimated fair value of debt securities at September 30, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| | (In thousands) | |
| Available for sale: | | |
| Due within one year | $— | $— |
| Due after one year through five years | 2,174 | 2,339 |
| Due after five years through ten years | 27,445 | 28,059 |
| Due after ten years | 19,131 | 18,675 |
| U.S. Government agency and U.S. Government sponsored enterprises | | |
| Collateralized mortgage obligations | 408,241 | 409,568 |
| Mortgage-backed securities | 495,882 | 500,904 |
| Mutual funds | 17,425 | 17,417 |
| | $970,298 | $976,962 |

Securities with carrying values of approximately $349.2 million and $366.2 million at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits, various borrowings and for other purposes as required or permitted by law.

The following tables show our investments' gross unrealized losses and estimated fair value, aggregated by investment category and the length of time that the individual securities have been in a continuous unrealized loss position as of the dates indicated.

| | As of September 30, 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than 12 months | | | 12 months or longer | | | Total | | |
| Description of Securities | Number of Securities | Fair Value | Gross Unrealized Losses | Number of Securities | Fair Value | Gross Unrealized Losses | Number of Securities | Fair Value | Gross Unrealized Losses |
| | (In thousands) | | | | | | | | |
| Collateralized mortgage obligations* | 5 | $36,194 | $(250) | 9 | $82,214 | $(1,429) | 14 | $118,408 | $(1,679) |
| Mortgage-backed securities* | 6 | 25,636 | (95) | 3 | 28,923 | (980) | 9 | 54,559 | (1,075) |
| Trust preferred securities | — | — | — | 1 | 3,850 | (692) | 1 | 3,850 | (692) |
| Municipal bonds | 17 | 4,647 | (30) | — | — | — | 17 | 4,647 | (30) |
| Mutual funds | 1 | 13,417 | (8) | — | — | — | 1 | 13,417 | (8) |
| | 29 | $79,894 | $(383) | 13 | $114,987 | $(3,101) | 42 | $194,881 | $(3,484) |

* Investments in U.S. Government agency and U.S. Government sponsored enterprises

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| | As of December 31, 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than 12 months | | | 12 months or longer | | | Total | | |
| Description of Securities | Number of Securities | Fair Value | Gross Unrealized Losses | Number of Securities | Fair Value | Gross Unrealized Losses | Number of Securities | Fair Value | Gross Unrealized Losses |
| | (In thousands) | | | | | | | | |
| Collateralized mortgage obligations* | 7 | $71,189 | $(507) | 13 | $133,563 | $(3,042) | 20 | $204,752 | $(3,549) |
| Mortgage-backed securities* | 7 | 38,133 | (139) | 6 | 62,036 | (1,387) | 13 | 100,169 | (1,526) |
| Trust Preferred securities | — | — | — | 1 | 3,988 | (544) | 1 | 3,988 | (544) |
| Mutual funds | — | — | — | 1 | 13,343 | (82) | 1 | 13,343 | (82) |
| | 14 | $109,322 | $(646) | 21 | $212,930 | $(5,055) | 35 | $322,252 | $(5,701) |

* Investments in U.S. Government agency and U.S. Government sponsored enterprises

The Company evaluates securities for other-than-temporary-impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair values of the securities have been less than the cost of the securities, and management’s intention to sell, or whether it is more likely than not that management will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer’s financial condition, the Company considers, among other considerations, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer’s financial condition.

The Company has certain collateralized mortgage obligations, mortgage-backed securities and trust preferred securities that were in a continuous unrealized loss position for twelve months or longer as of September 30, 2015. The trust preferred securities at September 30, 2015 had an amortized cost of $4.5 million and an unrealized loss of $692 thousand at September 30, 2015. The trust preferred securities are scheduled to mature in May 2047. These securities were rated investment grade and there were no credit quality concerns with the obligor. The collateralized mortgage obligations and mortgage-backed securities in a continuous loss position for twelve months or longer had an unrealized loss of $1.4 million and $1.0 million, respectively at September 30, 2015. These securities were issued by U.S. Government agency and U.S. Government sponsored enterprises and have high credit ratings of “AA” grade or better. Interest on the trust preferred securities and the U.S. Government agency and U.S. Government sponsored enterprise investments have been paid as agreed, and management believes this will continue in the future and that the securities will be repaid in full as scheduled. The market value declines for these securities were primarily due to movements in interest rates and are not reflective of management’s expectations of the Company’s ability to fully recover these investments, which may be at maturity. For these reasons, no OTTI was recognized on the trust preferred securities and the U.S. Government agency and U.S. Government sponsored collateralized mortgage obligations and mortgage-backed securities that are in an unrealized loss position at September 30, 2015.

The Company considers the losses on the investments in unrealized loss positions at September 30, 2015 to be temporary based on: 1) the likelihood of recovery; 2) the information relative to the extent and duration of the decline in market value; and 3) the Company’s intention not to sell, and management’s determination that it is more likely than not that the Company will not be required to sell a security in an unrealized loss position before recovery of its amortized cost basis.

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6. Loans Receivable and Allowance for Loan Losses

The following is a summary of loans receivable by major category:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| | (In thousands) | |
| Loan portfolio composition | | |
| Real estate loans: | | |
| Residential | $35,891 | $21,415 |
| Commercial & industrial | 4,668,654 | 4,324,349 |
| Construction | 122,736 | 94,086 |
| Total real estate loans | 4,827,281 | 4,439,850 |
| Commercial business | 944,160 | 903,621 |
| Trade finance | 116,458 | 134,762 |
| Consumer and other | 88,092 | 89,849 |
| Total loans outstanding | 5,975,991 | 5,568,082 |
| Less: deferred loan fees | (3,267) | (2,890) |
| Loans receivable | 5,972,724 | 5,565,192 |
| Less: allowance for loan losses | (71,110) | (67,758) |
| Loans receivable, net of allowance for loan losses | $5,901,614 | $5,497,434 |

The loan portfolio is made up of four segments: real estate loans, commercial business, trade finance and consumer and other. These segments are further segregated between loans accounted for under the amortized cost method ("Legacy Loans") and acquired loans that were originally recorded at fair value with no carryover of the related pre-acquisition allowance for loan losses ("Acquired Loans"). Acquired Loans are further segregated between Acquired Credit Impaired Loans (loans with credit deterioration on the acquisition date and accounted for under ASC 310-30, or "ACILs") and Acquired Performing Loans (loans that were pass graded on the acquisition date and the fair value adjustment is amortized over the contractual life under ASC 310-20, or "APLs").

The following table presents changes in the accretable discount on the ACILs for the three and nine months ended September 30, 2015 and 2014:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | | |
| Balance at beginning of period | $21,389 | $28,284 | $24,051 | $47,398 |
| Accretion | (2,978) | (3,790) | (9,211) | (12,854) |
| Changes in expected cash flows | 7,042 | 2,191 | 10,613 | (7,859) |
| Balance at end of period | $25,453 | $26,685 | $25,453 | $26,685 |

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the ACILs is the "accretable yield." The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. The accretable yield will change from period to period due to the following: 1) estimates of the remaining life of acquired loans will affect the amount of future interest income; 2) indices for variable rates of interest on ACILs may change; and 3) estimates of the amount of the contractual principal and interest that will not be collected (nonaccretable difference) may change.

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The following tables detail the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2015 and 2014:

| Legacy | | | Acquired | Total |
|---|---|---|---|---|
| Real Estate | Commercial Business | Trade Finance | | |