PACIFIC PREMIER BANCORP INC
Form 10-Q
November 06, 2015

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, 2015
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 6, 2015 was 21,510,678.

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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)

ASSETS	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)	September 30, 2014 (Unaudited)
Cash and due from banks	$102,235	$110,650	$103,356
Federal funds sold	526	275	275
Cash and cash equivalents	102,761	110,925	103,631
Investment securities available for sale	291,147	201,638	282,202
FHLB and other stock, at cost	22,490	17,067	18,643
Loans held for investment	2,167,856	1,628,622	1,548,004
Allowance for loan losses	(16,145)	(12,200)	(10,767)
Loans held for investment, net	2,151,711	1,616,422	1,537,237
Accrued interest receivable	9,083	7,131	6,762
Other real estate owned	711	1,037	752
Premises and equipment	9,044	9,165	9,402
Deferred income taxes	13,059	9,383	10,721
Bank owned life insurance	38,953	26,822	26,642
Intangible assets	7,514	5,614	5,867
Goodwill	50,832	22,950	22,950
Other assets	17,993	10,743	9,439
TOTAL ASSETS	$2,715,298	$2,038,897	$2,034,248
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing checking	$680,937	$456,754	$425,166
Interest-bearing:			
Checking	130,671	131,635	130,221
Money market/savings	822,876	600,764	564,050
Retail certificates of deposit	383,481	365,168	369,534
Wholesale/brokered certificates of deposit	121,242	76,505	54,495
Total interest-bearing	1,458,270	1,174,072	1,118,300
Total deposits	2,139,207	1,630,826	1,543,466
FHLB advances and other borrowings	191,483	116,643	195,561
Subordinated debentures	70,310	70,310	70,310
Accrued expenses and other liabilities	23,531	21,526	27,054
TOTAL LIABILITIES	2,424,531	1,839,305	1,836,391
STOCKHOLDERS' EQUITY:			
Common stock, $.01 par value; 50,000,000 shares authorized; 21,510,678 shares at September 30, 2015, 16,903,884 shares at December 31, 2014, and 17,069,216 shares at September 30, 2014 issued and outstanding	215	169	171
Additional paid-in capital	220,992	147,474	150,062

Retained earnings	68,881	51,431	47,540
Accumulated other comprehensive income, net of tax	679	518	84
TOTAL STOCKHOLDERS' EQUITY	290,767	199,592	197,857
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,715,298	$2,038,897	$2,034,248

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

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

	Three Months Ended			Nine Months Ended	
	September 30, 2015	June 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
INTEREST INCOME					
Loans	$27,288	$27,581	$19,550	$79,382	$54,057
Investment securities and other interest-earning assets	1,812	2,158	1,484	5,527	4,230
Total interest income	29,100	29,739	21,034	84,909	58,287
INTEREST EXPENSE					
Deposits	1,719	1,589	1,317	4,914	3,589
FHLB advances and other borrowings	339	407	294	1,121	792
Subordinated debentures	993	982	403	2,946	553
Total interest expense	3,051	2,978	2,014	8,981	4,934
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	26,049	26,761	19,020	75,928	53,353
PROVISION FOR LOAN LOSSES	1,062	1,833	1,284	4,725	3,263
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,987	24,928	17,736	71,203	50,090
NONINTEREST INCOME					
Loan servicing fees	1,022	724	547	2,647	1,685
Deposit fees	629	634	412	1,845	1,329
Net gain from sales of loans	2,544	2,721	1,775	5,265	3,621
Net gain from sales of investment securities	38	139	363	293	523
Other income	792	494	1,370	1,713	1,832
Total noninterest income	5,025	4,712	4,467	11,763	8,990
NONINTEREST EXPENSE					
Compensation and benefits	9,418	9,486	7,490	28,426	20,866
Premises and occupancy	2,151	2,082	1,723	6,062	4,877
Data processing and communications	681	716	420	2,099	2,036
Other real estate owned operations, net	9	56	11	113	65
FDIC insurance premiums	355	363	257	1,032	760
Legal, audit and professional expense	505	661	625	1,687	1,603
Marketing expense	567	615	318	1,785	736
Office and postage expense	525	505	441	1,529	1,155
Loan expense	370	263	258	826	633
Deposit expense	917	982	747	2,704	2,255
Merger-related expense	400	—	—	4,392	626
CDI amortization	344	344	254	1,002	761
Other expense	1,132	1,141	799	3,400	2,152
Total noninterest expense	17,374	17,214	13,343	55,057	38,525
NET INCOME BEFORE INCOME TAX	12,638	12,426	8,860	27,909	20,555
INCOME TAX	4,801	4,601	3,410	10,459	7,830
NET INCOME	$7,837	$7,825	$5,450	$17,450	$12,725

EARNINGS PER SHARE					
Basic	$0.36	$0.36	$0.32	$0.83	$0.75
Diluted	0.36	0.36	0.31	0.82	0.73
WEIGHTED AVERAGE SHARES OUTSTANDING					
Basic	21,510,678	21,493,641	17,069,216	21,037,345	17,078,945
Diluted	21,866,840	21,828,876	17,342,882	21,342,204	17,385,835

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,	
	2015	2015	2014	2015	2014
Net income	$7,837	$7,825	$5,450	$17,450	$12,725
Other comprehensive income (loss), net of tax (benefit):					
Unrealized holding gains (losses) on securities arising during the period, net of income taxes (benefits) (1)	1,126	(1,628)	320	333	3,469
Reclassification adjustment for net gain on sale of securities included in net income, net of income taxes (2)	(22)	(82)	(214)	(172)	(308)
Net unrealized gain (loss) on securities, net of income taxes	1,104	(1,710)	106	161	3,161
Comprehensive income	$8,941	$6,115	$5,556	$17,611	$15,886

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(1) Income tax (benefit) on the unrealized gains (losses) on securities was $790,000 for the three months ended September 30, 2015, $(1.1) million for the three months ended June 30, 2015, $75,000 for the three months ended September 30, 2014, $234,000 for the nine months ended September 30, 2015 and $2.2 million for the nine months ended September 30, 2014.
(2) Income taxes on the reclassification adjustment for net gain on sale of securities included in net income was $16,000 for the three months ended September 30, 2015, $57,000 for the three months ended June 30, 2015, $149,000 for the three months ended September 30, 2014, $121,000 for the nine months ended September 30, 2015 and $215,000 for the nine months ended September 30, 2014.

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, 2015 AND 2014
(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, 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
Balance at December 31, 2013	16,656,279	$166	$143,322	$34,815	$(3,077)	$175,226
Net income	—	—	—	12,725	—	12,725
Other comprehensive income	—	—	—	—	3,161	3,161
Share-based compensation expense	—	—	377	—	—	377
Common stock repurchased and retired	(262,897)	(2)	(2,755)	—	—	(2,757)
Common stock issued	562,469	6	9,006	—	—	9,012
Stock options exercised	113,365	1	112	—	—	113
Balance at September 30, 2014	17,069,216	$171	$150,062	$47,540	$84	$197,857

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

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

	Nine Months Ended September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$17,450	$12,725
Adjustments to net income:		
Depreciation and amortization expense	1,849	1,636
Amortization of Loan Fees and Discounts	(131)	(75)
Provision for loan losses	4,725	3,263
Share-based compensation expense	670	377
(Gain) loss on sale and disposal of premises and equipment	(15)	23
Loss on sale of other real estate owned	51	17
Write down of other real estate owned	41	—
Amortization of premium/discounts on securities held for sale, net	2,804	1,958
Accretion of loan mark-to-market discount from acquisitions	(1,964)	(1,632)
Gain on sale of investment securities available for sale	(293)	(523)
Other-than-temporary impairment recovery on investment securities, net	—	(28)
Gain on sale of loans held for investment	(5,265)	(3,621)
Recoveries on loans	56	87
Principal payments from loans held for sale	—	31
Loss from fair market value adjustment to loans held for sale	—	180
Deferred income tax benefit (provision)	1,006	(2,244)
Change in accrued expenses and other liabilities, net	209	2,310
Income from bank owned life insurance, net	(855)	(591)
Amortization of core deposit intangible	1,003	761
Change in accrued interest receivable and other assets, net	(6,905)	(3,756)
Net cash provided by operating activities	14,436	10,898
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of loans	120,335	51,213
Increase in loans, net	(320,152)	(272,960)
Proceeds from sale of other real estate owned	234	777
Principal payments on securities available for sale	25,517	21,535
Purchase of securities available for sale	(90,032)	(129,636)
Proceeds from sale or maturity of securities available for sale	26,520	91,907
Investment in bank owned life insurance	—	(2,000)
Proceeds from the sale of premises and equipment	1,623	—
Purchases of premises and equipment	(1,097)	(1,123)
Purchase of Federal Reserve Bank stock	(1,904)	(1,520)
Purchase of FHLB stock	(1,150)	(1,673)
Cash acquired (disbursed) in acquisitions, net	2,961	(7,793)
Net cash used in investing activities	(237,145)	(251,273)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposit accounts	172,363	237,180
Proceeds from issuance of subordinated debt	—	58,804
Change in FHLB advances and other borrowings, net	41,540	(76,147)

Proceeds from exercise of stock options	69	113
Warrants exercised	689	—
Repurchase of common stock	(116)	(2,757)
Net cash provided by financing activities	214,545	217,193
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,164)	(23,182)
CASH AND CASH EQUIVALENTS, beginning of period	110,925	126,813
CASH AND CASH EQUIVALENTS, end of period	$102,761	$103,631
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Interest paid	$9,877	$4,615
Income taxes paid	11,962	11,450
Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4):		
Investment securities	53,752	—
FHLB and Other Stock	2,369	—
Loans	332,893	78,833
Core deposit intangible	2,903	—
Deferred income tax	4,794	—
Bank owned life insurance	11,276	—
Goodwill	27,882	5,522
Fixed assets	2,134	74
Other assets	2,402	702
Deposits	(336,018)	—
Other borrowings	(33,300)	(67,617)
Other liabilities	(1,796)	(709)
Common stock and additional paid-in capital	(72,252)	(9,012)
NONCASH INVESTING ACTIVITIES DURING THE PERIOD		
Transfers from loans to other real estate owned	$—	$360
Investment securities available for sale purchased and not settled	—	5,982
Loans held for sale transfered to loans held for investment	—	2,936

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015
(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, 2015, December 31, 2014 and September 30, 2014, the results of its operations and comprehensive income for the three months ended September 30, 2015, June 30, 2015 and September 30, 2014 and the nine months ended September 30, 2015 and 2014 and the changes in stockholders’ equity and cash flows for the nine months ended September 30, 2015 and 2014. Operating results or comprehensive income for the nine months ended September 30, 2015 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, 2015.

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, 2014 (the “2014 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 Adopted in 2015

In June 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-10, Technical Corrections and Improvements, to clarify the Accounting Standards Codification ("ASC"), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2014, the FASB issued ASU No. 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): "Accounting for Investments in Qualified Affordable Housing Projects." This Update permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014 for public business entities and after December 15, 2015 for non public business entities. Upon adoption, the guidance must be applied

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retrospectively to all periods presented. However, entities that used the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company adopted the provisions of ASU No. 2014-01 effective January 1, 2015. As the Company accounts for such investments using the cost method, the adoption had no impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-04, Receivables-Troubled Debt Restructuring By Creditors (Subtopic 310-40): "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The Company adopted the provisions of ASU No. 2014-04 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860):"Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This Update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement, which has resulted in outcomes referred to as off-balance-sheet accounting. The Update requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The Update also requires expanded disclosures about the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The Update is effective for interim or annual period beginning after December 15, 2014. All of the Company's repurchase agreements are typical in nature (i.e., not repurchase-to-maturity transactions or repurchase agreements executed as a repurchase financing) and are accounted for as secured borrowings. The Company adopted the provisions of ASU No. 2014-11 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-14, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): "Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure". This Update addresses classification of government-guaranteed mortgage loans, including those where guarantees are offered by the Federal Housing Administration ("FHA"), the U.S. Department of Housing and Urban Development ("HUD"), and the U.S. Department of Veterans Affairs ("VA"). Although current accounting guidance stipulates proper measurement and classification in situations where a creditor obtains from a debtor, assets in satisfaction of a receivable (such as through foreclosure), current guidance does not specify how to measure and classify foreclosed mortgage loans that are government-guaranteed. Under the provisions of this Update, a creditor would derecognize a mortgage loan that has been foreclosed upon, and recognize a separate receivable if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the

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real estate is fixed. This Update is effective for interim and annual periods beginning after December 15, 2014 for public business entities and after December 15, 2015 for non public business entities. The Company adopted the provisions of ASU No. 2014-14 effective January 1, 2015. The adoption had no impact on the Company's Consolidated Financial Statements.

Accounting Standards Pending Adoption

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2017. The Update modifies the guidance companies use to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance also requires new qualitative and quantitative disclosures, including information about contract balances and performance obligations. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The Update changes the balance sheet presentation for debt issuance costs. Under the new guidance, debt issuance costs should be reported as a deduction from debt liabilities rather than as a deferred charge classified as an asset. The Update is effective for us in first quarter 2016 with retrospective application. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued guidance within ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This Update provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. This Update is effective for interim and annual periods ending after December 15, 2016. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

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.

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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. The allowance for loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly subject to change.

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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 core deposit intangible, securities and deposits with the assistance of third party valuations. The fair value of other real estate owned (“OREO”) was based on recent appraisals of the properties.

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.

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 Company’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 provisional 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
	(dollars 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	3,252	1,542	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	$422,378	$631	$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	$51,477	$418	51,895
Consideration paid			79,777
Goodwill recognized			$27,882

Infinity Franchise Holdings Acquisition

On January 30, 2014, the Company completed its acquisition of Infinity Franchise Holdings, LLC (“Infinity Holdings”) and its wholly owned operating subsidiary Infinity Franchise Capital, LLC (“IFC” and together with Infinity Holdings, “IFH”), a national lender to franchisees in the quick service restaurant (“QSR”) industry, and other direct and indirect subsidiaries utilized in its business. The value of the total consideration paid for the IFH acquisition was $17.4 million, which consisted of $8.3 million paid in cash and the issuance of 562,469 shares of the Corporation’s stock, which was valued at $16.02 per share as measured by the 10-day average closing price immediately prior to closing of the transaction.

The acquisition of IFH further diversified our loan portfolio with commercial and industrial and owner-occupied commercial real estate loans, deployed excess liquidity into higher yielding assets, to positively impact our net interest margin and further leveraged our strong capital base. The QSR franchisee lending business is a niche market that we believe provides attractive growth opportunities for the Company in the future. IFH had no delinquent loans or adversely classified assets as of the acquisition date; and the acquisition was accretive to our 2014 earnings per share.

Goodwill in the amount of $5.5 million was recognized in the IFH 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 IFH as of January 30, 2014 and the provisional fair value adjustments and amounts recorded by the Company in 2014 under the acquisition method of accounting:

	IFH Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$555	$—	$555
Loans, gross	78,833	—	78,833
Deferred loan costs	1,082	(1,082)	—
Allowance for loan losses	(268)	268	—
Other assets	776	—	776
Total assets acquired	$80,978	$(814)	$80,164
LIABILITIES ASSUMED			
Bank loan	$67,617	$—	$67,617
Accrued compensation	495	—	495
Other liabilities	214	—	214
Total liabilities assumed	68,326	—	68,326
Excess of assets acquired over liabilities assumed	$12,652	$(814)	11,838
Consideration paid			17,360
Goodwill recognized			$5,522

There were no purchased credit impaired loans acquired from IFH. For loans acquired from IFH 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	
	IFH	IDPK
	(dollars in thousands)	
Contractual amounts due	$98,320	$453,987
Cash flows not expected to be collected	—	3,795
Expected cash flows	98,320	450,192
Interest component of expected cash flows	19,487	117,299
Fair value of acquired loans	$78,833	$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 IFH or IDPK.

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The operating results of the Company for the nine months ending September 30, 2015 include the operating results of IDPK and IFH since the acquisition date. The operating results of the Company for the nine months ending September 30, 2014 include the operating results of IFH since the acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisitions of IFH and IDPK were effective as of January 1, 2014. 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,	
	2015	2014
Net interest and other income	$84,339	$75,289
Net income	16,463	14,911
Basic earnings per share	0.74	0.69
Diluted earnings per share	0.71	0.68

Note 5 – Investment Securities

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

	September 30, 2015			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$129,064	$1,266	$(326)	$130,004
Mortgage-backed securities	160,929	700	(486)	161,143
Total securities available for sale	$289,993	$1,966	$(812)	$291,147

	December 31, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$88,599	$1,235	$(173)	$89,661
Mortgage-backed securities	112,159	432	(614)	111,977
Total securities available for sale	$200,758	$1,667	$(787)	$201,638

	September 30, 2014			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$97,358	$1,495	$(268)	98,585
Mortgage-backed securities	184,701	180	(1,264)	183,617
Total securities available for sale	$282,059	$1,675	$(1,532)	$282,202

At September 30, 2015, the Company had $11.4 million in Federal Home Loan Bank (“FHLB”) stock, $7.5 million in Federal Reserve Bank (“FRB”) stock, and $3.6 million in other stock, all carried at cost.

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At September 30, 2015, mortgage-backed securities (“MBS”) with an estimated par value of $63.3 million and a fair value of $65.4 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 $19.0 million.

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, 2015								
	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)								
Municipal bonds	64	$37,405	$(248)	7	$3,612	$(78)	71	$41,017	$(326)
Mortgage-backed securities	17	57,803	(139)	3	13,613	(347)	20	71,416	(486)
Total	81	$95,208	$(387)	10	$17,225	$(425)	91	$112,433	$(812)

	December 31, 2014								
	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)								
Municipal bonds	35	$18,129	$(117)	16	$6,510	$(56)	51	$24,639	$(173)
Mortgage-backed securities	7	24,353	(105)	4	18,842	(509)	11	43,195	(614)
Total	42	$42,482	$(222)	20	$25,352	$(565)	62	$67,834	$(787)

	September 30, 2014								
	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)								
Municipal bonds	29	$16,804	$(183)	26	$10,459	$(85)	55	$27,263	$(268)
Mortgage-backed securities	22	85,248	(256)	9	42,516	(1,008)	31	127,764	(1,264)
Total	51	$102,052	$(439)	35	$52,975	$(1,093)	86	$155,027	$(1,532)

Any temporary impairment is a result of the change in market interest rates and not the underlying issuers’ ability to repay. The Company has the intent and ability to hold these securities until the temporary impairment is eliminated. Accordingly, the Company has not recognized the temporary impairment in earnings.

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The amortized cost and estimated fair value of investment securities available for sale at September 30, 2015, 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
	(dollars in thousands)									
Investment securities available for sale:										
Municipal bonds	$840	$843	$25,480	$25,605	$45,233	$45,628	$57,511	$57,928	$129,064	$130,004
Mortgage-backed securities	—	—	—	—	25,566	25,744	135,363	135,399	160,929	161,143
Total investment securities available for sale	$840	$843	$25,480	$25,605	$70,799	$71,372	$192,874	$193,327	$289,993	$291,147

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, 2015, the Company had accumulated other comprehensive income of $1,154,000, or $679,000 net of benefit, compared to accumulated other comprehensive income of $880,000, or $518,000 net of tax, at December 31, 2014.

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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, 2015	December 31, 2014	September 30, 2014
	(in thousands)		
Business loans:			
Commercial and industrial	$288,982	$228,979	$218,871
Franchise	295,965	199,228	163,887
Commercial owner occupied (1)	302,556	210,995	215,938
SBA	70,191	28,404	20,482
Warehouse facilities	144,274	113,798	108,093
Real estate loans:			
Commercial non-owner occupied	406,490	359,213	355,984
Multi-family	421,240	262,965	262,588
One-to-four family (2)	78,781	122,795	125,326
Construction	141,293	89,682	67,118
Land	12,758	9,088	6,103
Other loans	5,017	3,298	3,521
Total gross loans held for investment (3)	2,167,547	1,628,445	1,547,911
Deferred loan origination costs and premiums, net	309	177	93
Allowance for loan losses	(16,145)	(12,200)	(10,767)
Loans held for investment, net	$2,151,711	$1,616,422	$1,537,237

(1) Majority secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans for September 30, 2015 are net of (i) the unaccreted mark-to-market discounts on Canyon National Bank ("Canyon National") loans of $0.6 million, on Palm Desert National Bank ("Palm Desert National") loans of $1.0 million, on San Diego Trust Bank ("SDTB") loans of $135,000, and on IDPK loans of $5.8 million and (ii) the mark-to-market premium on First Associations Bank ("FAB") loans of $5,000.

From time to time, we may purchase or sell loans in order to manage concentrations, maximize interest income, change risk profiles, improve returns and generate liquidity.

The Company makes residential and commercial loans held for investment to customers located primarily in California. Consequently, the underlying collateral for our loans and a borrower’s ability to repay may be impacted unfavorably by adverse changes in the economy and real estate market in the region.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank’s unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $91.6 million for secured loans and $55.0 million for unsecured loans at September 30, 2015. At September 30, 2015, the Bank’s largest aggregate outstanding balance of loans to one borrower was $36.6 million of secured credit.

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Purchased Credit Impaired

The following table provides a summary of the Company's investment in purchased credit impaired loans, acquired from Canyon National, Palm Desert National and IDPK, as of the period indicated:

	September 30, 2015			
	Canyon National	Palm Desert National	IDPK	Total
	(in thousands)			
Business loans:				
Commercial and industrial	$93	$—	$237	$330
Commercial owner occupied	534	—	2,311	2,845
Real estate loans:				
Commercial non-owner occupied	926	—	1,203	2,129
One-to-four family	—	—	88	88
Total purchase credit impaired	$1,553	$—	$3,839	$5,392

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the "accretable yield." The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At September 30, 2015, the Company had $5.4 million of purchased credit impaired loans, of which $1.3 million were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired loans for the nine months ended September 30, 2015:

	Nine Months Ended September 30, 2015			
	Canyon National	Palm Desert National	IDPK	Total
	(in thousands)			
Balance at the beginning of period	$1,351	$52	$—	$1,403
Accretable yield at acquisition	—	—	602	602
Accretion	(164)	—	(120)	(284)
Disposals and other	—	(52)	(58)	(110)
Change in accretable yield	—	—	149	149
Balance at the end of period	$1,187	$—	$573	$1,760

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Impaired Loans

The following tables provide a summary of the Company’s investment in impaired loans as of the period indicated:

			Impaired Loans				
	Contractual Unpaid Principal Balance (in thousands)	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
September 30, 2015							
Business loans:							
Franchise	$2,394	$1,630	$—	$1,630	—	$1,647	$—
Commercial owner occupied	436	361	—	361	—	364	23
Real estate loans:							
Commercial non-owner occupied	693	443	—	443	—	443	21
One-to-four family	203	203	—	203	—	221	13
Land	37	22	—	22	—	23	3
Totals	$3,763	$2,659	$—	$2,659	$—	$2,698	$60

			Impaired Loans				
	Contractual Unpaid Principal Balance (in thousands)	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
December 31, 2014							
Business loans:							
Commercial and industrial	$—	$—	$—	$—	$—	$11	$—
Commercial owner occupied	440	388	—	388	—	514	46
SBA	—	—	—	—	—	5	—
Real estate loans:							
Commercial non-owner occupied	1,217	848	—	848	—	908	85
One-to-four family	256	236	—	236	—	440	17
Totals	$1,913	$1,472	$—	$1,472	$—	$1,878	$148

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	Contractual Unpaid Principal Balance (in thousands)	Recorded Investment	Impaired Loans With Specific Allowance	Impaired Loans Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
September 30, 2014							
Business loans:							
Commercial and industrial	$—	$—	$—	$—	$—	$15	$—
Commercial owner occupied	441	398	—	398	—	555	41
SBA	—	—	—	—	—	6	—
Real estate loans:							
Commercial non-owner occupied	1,221	883	—	883	—	924	65
One-to-four family	649	526	—	526	—	504	18
Totals	$2,311	$1,807	$—	$1,807	$—	$2,004	$124

The Company considers a loan to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or it is determined that the likelihood of the Company receiving all scheduled payments, including interest, when due is remote. The Company has no commitments to lend additional funds to debtors whose loans have been impaired.

The Company reviews loans for impairment when the loan is classified as substandard or worse, delinquent 90 days, or determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a troubled debt restructuring (“TDR”). Measurement of impairment is based on the loan’s expected future cash flows discounted at the loan’s effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. All loans are generally charged-off at such time the loan is classified as a loss. Valuation allowances are determined on a loan-by-loan basis or by aggregating loans with similar risk characteristics.

The following table provides additional detail on the components of impaired loans at the period end indicated:

	September 30, 2015 (in thousands)	December 31, 2014	September 30, 2014
Nonaccruing loans	$2,482	$1,290	$1,624
Accruing loans	177	182	183
Total impaired loans	$2,659	$1,472	$1,807

When loans are placed on nonaccrual status all accrued interest is reversed from earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further loss is remote, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least three months of sustained repayment performance since the loan was placed on nonaccrual.

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status of $2.5 million at September 30, 2015, $1.3 million at December 31, 2014, and $1.6 million at September 30, 2014. The Company had no loans 90 days or more past due and still accruing at September 30, 2015, December 31, 2014 or September 30, 2014.

The Company had no new TDRs during the quarter ended September 30, 2015 and September 30, 2014 and had one immaterial TDR outstanding related to a U.S. Small Business Administration (“SBA”) loan. In addition, the Company had no foreclosed residential real estate property or a recorded investment in consumer mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings were in process as of September 30, 2015.

Concentration of Credit Risk

As of September 30, 2015, the Company’s loan portfolio was collateralized by various forms of real estate and business assets located principally in California. The Company’s loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied business loans. The Bank maintains policies approved by the Bank’s Board of Directors (the “Bank Board”) that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that a significant deterioration in the California real estate market or economy would not expose the Company to significantly greater credit risk.

Credit Quality and Credit Risk Management

The Company’s credit quality is maintained and credit risk managed in two distinct areas. The first is the loan origination process, wherein the Bank underwrites credit quality and chooses which risks it is willing to accept. The second is in the ongoing oversight of the loan portfolio, where existing credit risk is measured and monitored, and where performance issues are dealt with in a timely and comprehensive fashion.

The Company maintains a comprehensive credit policy which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed annually by the Bank Board. The Bank’s seasoned underwriters ensure all key risk factors are analyzed with nearly all underwriting including a comprehensive global cash flow analysis of the prospective borrowers. The credit approval process mandates multiple-signature approval by the management credit committee for every loan that requires any subjective credit analysis.

Credit risk is managed within the loan portfolio by the Company’s Portfolio Management department based on a comprehensive credit and investment review policy. This policy requires a program of financial data collection and analysis, comprehensive loan reviews, property and/or business inspections and monitoring of portfolio concentrations and trends. The Portfolio Management department also monitors asset-based lines of credit, loan covenants and other conditions associated with the Company’s business loans as a means to help identify potential credit risk. Individual loans, excluding the homogeneous loan portfolio, are reviewed at least biennially, and in most cases more often, including the assignment of a risk grade.

Risk grades are based on a six-grade Pass scale, along with Special Mention, Substandard, Doubtful and Loss classifications as such classifications are defined by the regulatory agencies. The assignment of risk grades allows the Company to, among other things, identify the risk associated with each credit in the portfolio, and to provide a basis for estimating credit losses inherent in the portfolio. Risk grades are reviewed regularly by the Company’s Credit and Portfolio Review committee, and are reviewed annually by an independent third-party, as well as by regulatory agencies during scheduled examinations.

The following provides brief definitions for risk grades assigned to loans in the portfolio:

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- Pass classifications represent assets with a level of credit quality which contain no well-defined deficiency or weakness.
- Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiencies or potential weaknesses deserving management's close attention.
- Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. OREO acquired from foreclosure is also classified as substandard.
- Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

The Portfolio Management department also manages loan performance risks, collections, workouts, bankruptcies and foreclosures. Loan performance risks are mitigated by our portfolio managers acting promptly and assertively to address problem credits when they are identified. Collection efforts are commenced immediately upon non-payment, and the portfolio managers seek to promptly determine the appropriate steps to minimize the Company's risk of loss. When foreclosure will maximize the Company's recovery for a non-performing loan, the portfolio managers will take appropriate action to initiate the foreclosure process.

When a loan is graded as special mention or substandard or doubtful, the Company obtains an updated valuation of the underlying collateral. If the credit in question is also identified as impaired, a valuation allowance, if necessary, is established against such loan or a loss is recognized by a charge to the allowance for loan losses ("ALLL") if management believes that the full amount of the Company's recorded investment in the loan is no longer collectable. The Company typically continues to obtain or confirm updated valuations of underlying collateral for special mention and classified loans on an annual basis in order to have the most current indication of fair value. Once a loan is identified as impaired, an analysis of the underlying collateral is performed at least quarterly, and corresponding changes in any related valuation allowance are made or balances deemed to be fully uncollectable are charged-off.

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The following tables stratify the loan portfolio by the Company's internal risk grading system as well as certain other information concerning the credit quality of the loan portfolio as of the periods indicated:

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
September 30, 2015	(in thousands)			
Business loans:				
Commercial and industrial	$285,931	$80	$2,971	$288,982
Franchise	294,335	—	1,630	295,965
Commercial owner occupied	291,121	1,274	10,161	302,556
SBA	70,191	—	—	70,191
Warehouse facilities	144,274	—	—	144,274
Real estate loans:				
Commercial non-owner occupied	403,020	259	3,211	406,490
Multi-family	417,576	698	2,966	421,240
One-to-four family	77,729	—	1,052	78,781
Construction	141,293	—	—	141,293
Land	12,656	—	102	12,758
Other loans	5,017	—	—	5,017
Totals	$2,143,143	$2,311	$22,093	$2,167,547

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
December 31, 2014	(in thousands)			
Business loans:				
Commercial and industrial	$227,151	$—	$1,828	$228,979
Franchise	199,228	—	—	199,228
Commercial owner occupied	202,390	—	8,605	210,995
SBA	28,132	272	—	28,404
Warehouse facilities	113,798	—	—	113,798
Real estate loans:				
Commercial non-owner occupied	355,274	—	3,939	359,213
Multi-family	261,956	501	508	262,965
One-to-four family	122,146	—	649	122,795
Construction	89,682	—	—	89,682
Land	9,088	—	—	9,088
Other loans	3,298	—	—	3,298
Totals	$1,612,143	$773	$15,529	$1,628,445

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	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
September 30, 2014	(in thousands)			
Business loans:				
Commercial and industrial	$217,093	$—	$1,778	$218,871
Franchise	163,887	—	—	163,887
Commercial owner occupied	206,096	387	9,455	215,938
SBA	20,482	—	—	20,482
Warehouse facilities	108,093	—	—	108,093
Real estate loans:				
Commercial non-owner occupied	351,614	—	4,370	355,984
Multi-family	261,574	504	510	262,588
One-to-four family	124,383	—	943	125,326
Construction	67,118	—	—	67,118
Land	6,103	—	—	6,103
Other loans	3,521	—	—	3,521
Totals	$1,529,964	$891	$17,056	$1,547,911

The following tables set forth delinquencies in the Company's loan portfolio at the dates indicated:

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
September 30, 2015	(in thousands)					
Business loans:						
Commercial and industrial	$288,269	$681	$25	$7	$288,982	$237
Franchise	294,335	—	—	1,630	295,965	1,630
Commercial owner occupied	302,556	—	—	—	302,556	556
SBA	70,191	—	—	—	70,191	—
Warehouse facilities	144,274	—	—	—	144,274	—
Real estate loans:						
Commercial non-owner occupied	406,047	—	—	443	406,490	1,424
Multi-family	421,240	—	—	—	421,240	—
One-to-four family	78,648	21	—	112	78,781	226
Construction	141,293	—	—	—	141,293	—
Land	12,736	—	—	22	12,758	22
Other loans	5,017	—	—	—	5,017	—
Totals	$2,164,606	$702	$25	$2,214	$2,167,547	$4,095

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		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
December 31, 2014	(in thousands)					
Business loans:						
Commercial and industrial	$228,955	$—	$24	$—	$228,979	$—
Franchise	199,228	—	—	—	199,228	—
Commercial owner occupied	210,995	—	—	—	210,995	514
SBA	28,404	—	—	—	28,404	—
Warehouse facilities	113,798	—	—	—	113,798	—
Real estate loans:						
Commercial non-owner occupied	359,213	—	—	—	359,213	848
Multi-family	262,965	—	—	—	262,965	—
One-to-four family	122,722	19	—	54	122,795	82
Construction	89,682	—	—	—	89,682	—
Land	9,088	—	—	—	9,088	—
Other loans	3,297	1	—	—	3,298	—
Totals	$1,628,347	$20	$24	$54	$1,628,445	$1,444

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
September 30, 2014	(in thousands)					
Business loans:						
Commercial and industrial	$218,871	$—	$—	$—	$218,871	$—
Franchise	163,887	—	—	—	163,887	—
Commercial owner occupied	215,938	—	—	—	215,938	528
SBA	20,439	—	43	—	20,482	—
Warehouse facilities	108,093	—	—	—	108,093	—
Real estate loans:						
Commercial non-owner occupied	355,984	—	—	—	355,984	882
Multi-family	262,588	—	—	—	262,588	—
One-to-four family	124,963	20	—	343	125,326	372
Construction	67,118	—	—	—	67,118	—
Land	6,103	—	—	—	6,103	—
Other loans	3,521	—	—	—	3,521	—
Totals	$1,547,505	$20	$43	$343	$1,547,911	$1,782

Note 7 – Allowance for Loan Losses

The Company’s ALLL covers estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of the loan portfolio. The ALLL is prepared using the information provided by the Company’s credit review process together with data from peer institutions and economic information gathered from published sources.

The loan portfolio is segmented into groups of loans with similar risk characteristics. Each segment possesses varying degrees of risk based on, among other things, the type of loan, the type of collateral, and the sensitivity of the borrower or industry to changes in external factors such as economic conditions. An estimated loss rate calculated using the Company’s actual historical loss rates adjusted for current portfolio trends, economic conditions, and other relevant internal and external factors, is applied to each group’s aggregate loan balances.

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The Company's base ALLL factors are determined by management using the Bank's annualized actual trailing charge-off data over intervals ranging from 84, 72, 36, 24, 12 and 6 months. Adjustments to those base factors are made for relevant internal and external factors. Those factors may include:

- Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment,
- Changes in the nature and volume of the loan portfolio, including new types of lending,
- Changes in volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans, and
- The existence and effect of concentrations of credit, and changes in the level of such concentrations.

The resulting total ALLL factor is compared for reasonableness against the 10-year average, 15-year average, and trailing 12 month total charge-off data for all Federal Deposit Insurance Corporation ("FDIC") insured commercial banks and savings institutions based in California. This factor is applied to balances graded pass-1through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management's judgment, taking into consideration the specific characteristics of the Bank's portfolio and analysis of results from a select group of the Company's peers.

The following tables summarize the allocation of the ALLL as well as the activity in the ALLL attributed to various segments in the loan portfolio as of and for the nine months ended for the periods indicated:

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	Commercial and industrial (dollars in thousands)	Franchise	Commercial owner occupied	SBA	Warehouse Facilities	Commercial non-owner occupied	Multi-family	One-to-four family	Construction
Balance, December 31, 2014	$2,646	$1,554	$1,757	$568	$546	$2,007	$1,060	$842	$1,088
Charge-offs	(72)	(764)	—	—	—	—	—	—	—
Recoveries	35	—	—	4	—	3	—	13	—
Provisions for (reduction in) loan losses	730	1,434	147	891	258	111	620	(137)	613
Balance, September 30, 2015	$3,339	$2,224	$1,904	$1,463	$804	$2,121	$1,680	$718	$1,701
Amount of allowance attributed to:									
Specifically evaluated impaired loans	$—	$—	$—	$—	$—	$—	$—	$—	$—
General portfolio allocation	3,339	2,224	1,904	1,463	804	2,121	1,680	718	1,701
Loans individually evaluated for impairment	—	1,630	361	—	—	443	—	203	—
Specific reserves to total loans individually evaluated for impairment	— %	— %	— %	— %	— %	— %	— %	— %	— %
Loans collectively evaluated for impairment	$288,982	$294,335	$302,195	$70,191	$144,274	$406,047	$421,240	$78,578	$141,293
General reserves to total loans collectively	1.16 %	0.76 %	0.63 %	2.08 %	0.56 %	0.52 %	0.40 %	0.91 %	1.20 %

evaluated for impairment									
Total gross loans	$288,982	$295,965	$302,556	$70,191	$144,274	$406,490	$421,240	$78,781	$141,293
Total allowance to gross loans	1.16 %	0.75 %	0.63 %	2.08 %	0.56 %	0.52 %	0.40 %	0.91 %	1.20 %

	Commercial and industrial (dollars in thousands)	Franchise	Commercial owner occupied	SBA	Warehouse Facilities	Commercial non-owner occupied	Multi-family	One-to-four family	Constructio
Balance, December 31, 2013	$1,968	$—	$1,818	$151	$392	$1,658	$817	$1,099	$136
Charge-offs	(223)	—	—	—	—	(365)	—	(195)	—
Recoveries	33	—	—	4	—	—	—	32	—
Provisions for (reduction in) loan losses	655	1,024	(44)	290	102	608	194	(121)	639
Balance, September 30, 2014	$2,433	$1,024	$1,774	$445	$494	$1,901	$1,011	$815	$775
Amount of allowance attributed to:									
Specifically evaluated impaired loans	$—	$—	$—	$—	$—	$—	$—	$—	$—
General portfolio allocation	2,433	1,024	1,774	445	494	1,901	1,011	815	775
Loans individually evaluated for impairment	—	—	398	—	—	883	—	526	—
Specific reserves to total loans individually evaluated for impairment	— %	— %	— %	— %	— %	— %	— %	— %	— %
Loans collectively evaluated for impairment	$218,871	$163,887	$215,540	$20,482	$108,093	$355,101	$262,588	$124,800	$67,118
General reserves to total loans collectively	1.11 %	0.62 %	0.82 %	2.17 %	0.46 %	0.54 %	0.39 %	0.65 %	1.15 %

evaluated for impairment									
Total gross loans	$218,871	$163,887	$215,938	$20,482	$108,093	$355,984	$262,588	$125,326	$67,118
Total allowance to gross loans	1.11 %	0.62 %	0.82 %	2.17 %	0.46 %	0.53 %	0.39 %	0.65 %	1.15 %

Note 8 – Subordinated Debentures

In August 2014, the Corporation issued $60 million in aggregate principal amount of 5.75% Subordinated Notes Due 2024 (the “Notes”) in a private placement transaction to institutional accredited investors (the “Private Placement”). The Corporation contributed $50 million of net proceeds from the Private Placement to the Bank to support general corporate purposes. The Notes bear interest at an annual fixed rate of 5.75%, and the first interest payment on the Notes occurred on March 3, 2015, with future interest payments being paid semiannually each March 3 and September 3 until September 3, 2024.

In connection with the Private Placement, the Corporation obtained ratings from Kroll Bond Rating Agency (“KBRA”). KBRA assigned investment grade ratings of BBB+ and BBB for the Corporation's senior unsecured debt and subordinated debt, respectively, and a senior deposit rating of A- for the Bank. These ratings were affirmed by KBRA on October 23, 2015.

In March 2004, the Corporation issued $10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Subordinated Debentures”) to PPBI Trust I, which funded the payment of $10 million of Floating Rate Trust Preferred Securities (“Trust Preferred Securities”) issued by PPBI Trust I in March 2004. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 3.04% per annum as of September 30, 2015.

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The Corporation is not allowed to consolidate PPBI Trust I into the Company's consolidated financial statements. The resulting effect on the Company's consolidated financial statements is to report only the Subordinated Debentures as a component of the Company's liabilities.

Note 9 – Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, excluding common shares in treasury. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that would then share in earnings and excludes common shares in treasury. Stock options exercisable for shares of common stock are excluded from the computation of diluted earnings per share if they are anti-dilutive due to their exercise price exceeding the average market price during the period.

The impact of stock options which are anti-dilutive are excluded from the computations of diluted earnings per share. The dilutive impact of these securities could be included in future computations of diluted earnings per share if the market price of the common stock increases. The following table sets forth the number of stock options excluded for the periods indicated:

	Three Months Ended			Nine Months Ended	
	September 30, 2015	June 30, 2015	September 30, 2014	September 30, 2015	2014
Stock options excluded	—	448,000	249,000	316,614	249,000

The following tables set forth the Company's unaudited earnings per share calculations for the periods indicated:

	Three Months Ended								
	September 30, 2015			June 30, 2015			September 30, 2014		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)								
Net income	$7,837			$7,825			$5,450		
Basic income available to common stockholders	7,837	21,510,678	$0.36	7,825	21,493,641	$0.36	5,450	17,069,216	$0.32
Effect of dilutive stock option grants and warrants	—	356,162		—	335,235		—	273,666	
Diluted income available to common stockholders plus assumed conversions	$7,837	21,866,840	$0.36	7,825	21,828,876	$0.36	$5,450	17,342,882	$0.31

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	Nine Months Ended September 30,					
	2015			2014		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)					
Net income	$ 17,450			$ 12,725		