BBCN BANCORP INC
Form 10-Q
May 08, 2013

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 March 31, 2013
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	95-4849715
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
3731 Wilshire Boulevard, Suite 1000, Los Angeles, California	90010
(Address of Principal executive offices)	(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 May 6, 2013, there were 78,981,401 outstanding shares of the issuer's Common Stock, $0.001 par value.

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Forward-Looking Information

Certain matters discussed in this report may constitute forward-looking statements under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. There can be no assurance that the results described or implied in such forward-looking statements will, in fact, be achieved and actual results, performance, and achievements could differ materially because our business involves inherent risks and uncertainties. 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, 2012.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(Unaudited) March 31, 2013	December 31, 2012
ASSETS	(In thousands, except share data)	
Cash and cash equivalents:		
Cash and due from banks	$73,125	$88,506
Interest-earning deposit at the Federal Reserve Bank (the "FRB")	207,688	224,410
Total cash and cash equivalents	280,813	312,916
Securities available for sale, at fair value	717,441	704,403
Loans held for sale, at the lower of cost or fair value	48,941	51,635
Loans receivable, net of allowance for loan losses (March 31, 2013 - $73,268; December 31, 2012 - $66,941)	4,426,778	4,229,311
Other real estate owned ("OREO"), net	8,419	2,698
Federal Home Loan Bank ("FHLB") stock, at cost	24,308	22,495
Premises and equipment, net of accumulated depreciation and amortization (March 31, 2013 - $23,198; December 31, 2012 - $22,201)	22,960	22,609
Accrued interest receivable	13,271	12,117
Deferred tax assets, net	65,298	60,240
Customers’ liabilities on acceptances	12,200	10,493
Bank owned life insurance	44,079	43,767
Investments in affordable housing partnerships	12,641	13,164
Goodwill	93,404	89,878
Other intangible assets, net	3,401	3,033
Prepaid FDIC insurance	7,157	7,574
FDIC loss share receivable	4,386	5,797
Other assets	48,100	48,531
Total assets	$5,833,597	$5,640,661

(Continued)

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

	(Unaudited) March 31, 2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS’ EQUITY	(In thousands, except share data)	
LIABILITIES:		
Deposits:		
Non-interest bearing	$1,182,509	$1,184,285
Interest bearing:		
Money market and NOW accounts	1,269,388	1,248,304
Savings deposits	192,208	180,686
Time deposits of $100,000 or more	1,237,366	1,088,611
Other time deposits	674,203	682,149
Total deposits	4,555,674	4,384,035
FHLB advances	421,632	420,722
Subordinated debentures	45,996	41,846
Accrued interest payable	4,325	4,355
Acceptances outstanding	12,200	10,493
Other liabilities	21,495	28,106
Total liabilities	5,061,322	4,889,557
STOCKHOLDERS’ EQUITY:		
Common stock, $0.001 par value; authorized 150,000,000 shares at March 31, 2013 and December 31, 2012; issued and outstanding, 78,812,140 and 78,041,511 shares at March 31, 2013 and December 31, 2012, respectively	79	78
Additional paid-in capital	535,091	525,354
Retained earnings	230,149	216,590
Accumulated other comprehensive income, net	6,956	9,082
Total stockholders’ equity	772,275	751,104
Total liabilities and stockholders’ equity	$5,833,597	$5,640,661

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 March 31,	
	2013	2012
	(In thousands, except share data)	
INTEREST INCOME:		
Interest and fees on loans	$63,029	$63,419
Interest on securities	3,427	4,909
Interest on federal funds sold and other investments	287	227
Total interest income	66,743	68,555
INTEREST EXPENSE:		
Interest on deposits	5,408	5,403
Interest on FHLB advances	1,224	1,626
Interest on other borrowings	395	667
Total interest expense	7,027	7,696
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	59,716	60,859
PROVISION FOR LOAN LOSSES	7,506	2,600
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	52,210	58,259
NON-INTEREST INCOME:		
Service fees on deposit accounts	2,875	3,160
International service fees	1,238	1,224
Loan servicing fees, net	969	1,337
Wire transfer fees	816	741
Other income and fees	1,249	1,340
Net gains on sales of SBA loans	2,694	2,963
Net gains on sales of other loans	43	—
Net gains on sales of securities available for sale	54	816
Net valuation gains on interest rate swaps and caps	—	3
Net gains on sales of OREO	2	61
Total non-interest income	9,940	11,645
NON-INTEREST EXPENSE:		
Salaries and employee benefits	16,332	14,079
Occupancy	4,011	3,646
Furniture and equipment	1,573	1,218
Advertising and marketing	1,273	1,458
Data processing and communications	1,644	1,611
Professional fees	1,301	613
FDIC assessments	694	1,037
Credit related expenses	1,715	2,180
Merger and integration expense	1,305	1,773
Other	3,427	2,820
Total non-interest expense	33,275	30,435
INCOME BEFORE INCOME TAX PROVISION	28,875	39,469
INCOME TAX PROVISION	11,414	15,535
NET INCOME	$17,461	$23,934
DIVIDENDS AND DISCOUNT ACCRETION ON PREFERRED STOCK	$—	$(1,869)

NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$17,461	$22,065
EARNINGS PER COMMON SHARE		
Basic	$0.22	$0.28
Diluted	$0.22	$0.28

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 March 31,	
	2013	2012
	(In thousands)	
Net income	$17,461	$23,934
Other comprehensive income:		
Unrealized loss on securities available for sale and interest only strips	(3,653)	(312)
Reclassification adjustments for gains realized in income [1]	(54)	(816)
Tax benefit	(1,581)	(474)
Change in unrealized gain on securities available for sale and interest only strips	(2,126)	(654)
Reclassification adjustment for the deferred gain on early settlement of interest-rate caps	—	(11)
Tax benefit	—	(4)
Change in unrealized gain on interest-rate caps, net of tax	—	(7)
Total other comprehensive loss	(2,126)	(661)
Total comprehensive income	$15,335	$23,273

(1) Reclassification adjustments realized in income were included in net gains on sales of securities available for sale.

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				
	Preferred stock	Shares	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net
	(In thousands, except share data)					
BALANCE, JANUARY 1, 2012	$119,350	77,984,252	$78	$524,644	$142,909	$ 8,958
Issuance of additional shares pursuant to various stock plans		12,139		81		
Stock-based compensation				398		
Preferred stock cash dividends accrued (5%)					(1,525)	
Accretion of preferred stock discount	344				(344)	
Comprehensive income:						
Net income					23,934	
Other comprehensive loss						(661)
BALANCE, MARCH 31, 2012	$119,694	77,996,391	$78	$525,123	$164,974	$ 8,297
BALANCE, JANUARY 1, 2013	$—	78,041,511	$78	$525,354	$216,590	$ 9,082
Acquisition of Pacific International Bank		663,843	1	8,640		
Issuance of additional shares pursuant to various stock plans		106,786		414		
Tax effect of stock plans				(26)		
Stock-based compensation				709		
Cash dividend declared on common stock ($0.05 per share)					(3,902)	
Comprehensive income:						
Net income					17,461	
Other comprehensive loss						$ (2,126)
BALANCE, MARCH 31, 2013	$—	78,812,140	$79	$535,091	$230,149	$ 6,956

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)

	Three Months Ended March 31	
	2013	2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$17,461	$23,934
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization, net of discount accretion	(2,717)	2,023
Stock-based compensation expense	709	398
Provision for loan losses	7,506	2,600
Valuation adjustment of loans held for sale	—	668
Valuation adjustment of OREO	115	390
Proceeds from sales of loans	29,144	37,904
Originations of loans held for sale	(23,713)	(43,822)
Net gains on sales of SBA and other loans	(2,737)	(2,963)
Net change in bank owned life insurance	(312)	(305)
Net gains on sales of securities available for sale	(54)	(816)
Net gains on sales of OREO	(2)	(61)
Net valuation gains on interest rate swaps and caps	—	(3)
Change in accrued interest receivable	(730)	1,186
Change in deferred income taxes	1,524	6,058
Change in prepaid FDIC insurance	614	960
Change in investments in affordable housing partnership	523	513
Change in FDIC loss share receivable	1,411	(27)
Change in other assets	675	(5,227)
Change in accrued interest payable	(104)	(34)
Change in other liabilities	(9,836)	12,197
Net cash provided by operating activities	19,477	35,573
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	(69,771)	(1,028)
Proceeds from sales of securities available for sale	6,636	1,883
Proceeds from sales of OREO	849	2,066
Proceeds from matured term federal funds	—	40,000
Proceeds from sales of equipment	—	3
Purchase of premises and equipment	(1,671)	(752)
Purchase of securities available for sale	(69,821)	—
Purchase of FRB stock	—	1,309
Redemption of FHLB stock	16	—
Purchase of term federal funds	—	(20,000)
Proceeds from matured or paid-down securities available for sale	52,488	39,334
Net cash received from acquisition	25,968	—
Redemption of preferred stock upon the acquisition	(7,475)	—
Net cash used in investing activities	(62,781)	62,815
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	28,412	(20,428)
Cash dividends paid on Preferred Stock	—	(1,410)
Proceeds from FHLB advances	90,000	—

Repayment of FHLB advances	(103,697)	(11,062)
Cash dividends paid on Common Stock	(3,902)	—
Issuance of additional stock pursuant to various stock plans	388	81
Net cash used in financing activities	11,201	(32,819)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(32,103)	65,569
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	312,916	300,110
CASH AND CASH EQUIVALENTS, END OF PERIOD	$280,813	$365,679
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$7,057	$7,730
Income taxes paid	$16,291	$(4,250)
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES		
Transfer from loans receivable to OREO	$1,985	$412
Non-cash goodwill adjustment, net	$—	$591
Pacific International Bank Acquisition:		
Assets acquired	$178,732	$—
Liabilities assumed	$(165,828)	$—

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 York, New Jersey, Washington and Illinois, as well as loan production offices in the Atlanta, Dallas, Denver, Northern California and Seattle markets. The Company is a corporation organized under the laws of Delaware and a financial holding company and 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, 2012 which was derived from audited financial statements included in the Company's 2012 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 March 31, 2013 and the results of operations for the three months then ended. 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, the valuation of servicing assets, and the determination of the fair values of acquired assets and liabilities including the fair value of loans acquired with credit deterioration.

These unaudited condensed consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in the Company's 2012 Annual Report on Form 10-K.

Recent Accounting Pronouncements:

FASB ASU No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” - ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present either on the face of the statement where net income is presented, or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. The Company adopted ASU 2013-02 for the reporting period ending March 31, 2013, and its adoption did not have a material effect on the Company's consolidated financial statements.

3. Business Combinations

The Company applies the acquisition method of accounting for business combinations under ASC 805 - Business Combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100 percent of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred as merger and integration expenses.

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Pacific International Bancorp

On February 15, 2013, the Company completed the acquisition of Pacific International Bancorp, Inc. ("PIB"), a Seattle based company, pursuant to an Agreement and Plan of Merger, dated October 22, 2012. The Company acquired PIB in order to increase the Company's presence in terms of branch offices and deposit market share in the Seattle market. PIB's primary subsidiary, Pacific International Bank, a Washington state-chartered bank, operated four bank branches in the Seattle metropolitan area.

In connection with the acquisition, the consideration paid, the assets acquired, and the liabilities assumed are summarized in the following table:

	(In thousands)
Consideration paid:	
BBCN common stock issued	$ 8,437
Cash in lieu of fractional shares paid to PIB stockholders	1
Redemption of Preferred Stock	7,475
Total consideration paid	$ 15,913
Assets Acquired:	
Cash and cash equivalents	$ 25,968
Investment securities available for sale	7,810
Loans, net	131,589
FRB and FHLB stock	1,829
OREO	3,418
Deferred tax assets, net	5,000
Other assets	3,118
Liabilities Assumed:	
Deposits	(143,665)
Borrowings	(14,698)
Subordinated debentures	(4,108)
Other liabilities	(3,874)
Total identifiable net assets	$ 12,387
Excess of consideration paid over fair value of net assets acquired (goodwill)	$ 3,526

The Company estimated the fair value for most loans acquired from PIB by utilizing a methodology wherein loans with comparable characteristics were aggregated by type of collateral, remaining maturity, and repricing terms. Cash flows for each pool were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. To estimate the fair value of the remaining loans, management analyzed the value of the underlying collateral of the loans, assuming the fair values of the loans were derived from the eventual sale of the collateral. The value of the collateral was based on recently completed appraisals adjusted to the valuation date based on recognized industry indices. We discounted those values using market derived rates of return, with consideration given to the period of time and costs associated with the foreclosure and disposition of the collateral. There was no carryover of PIB’s allowance for loan losses associated with the loans we acquired as the loans were initially recorded at fair value. The loans acquired with deteriorated credit quality from PIB as of February 15, 2013 are as follows:

	(In thousands)
Contractually required principal and interest at acquisition	$54,462
Contractual cash flows not expected to be collected (nonaccretable discount)	9,687
Expected cash flows at acquisition	44,775
Interest component of expected cash flows (accretable discount)	4.945
Fair value of acquired loans	$39,830

The fair value of savings and transactional deposit accounts acquired from PIB was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit were valued by comparing the contractual cost of the the portfolio to an identical portfolio bearing current market rates. The projected cash flows from maturing certificates were calculated based on contractual rates. The fair value of the certificates of deposit was calculated by discounting their contractual cash flows at a market rate for a certificate of deposit with a corresponding maturity

The fair value of borrowings assumed was determined by estimating projected future cash outflows and discounting them at a market rate of interest.

The fair value of the net deferred tax assets acquired from PIB is provisional as of March 31, 2013, and adjustments to the provisional amount may occur during the measurement period as the Company obtains additional information about the facts and circumstances that existed as of the acquisition date.

The $3.5 million of goodwill recognized in the PIB acquisition represents the future economic benefit arising from the acquisition including: the creation of a platform that can support future operations and strengthening the Company's existing presence in the Pacific Northwest market. Goodwill is not amortized for book purposes and is not deductible for tax purposes.

	For the three months ended March 31, 2013
	(In thousands)
Balance, beginning of period	$89,878
Acquired goodwill	3,526
Impairment	—
Balance, end of period	$93,404

The operating results of PIB from the date of acquisition through March 31, 2013 are included in the Condensed Consolidated Statement of Income for 2013 and are not material to the total consolidated operating results for the three month period ended March 31, 2013 and, consequently, no pro forma information is presented. Direct costs related to the acquisition were expensed as incurred as merger related expenses. The Company incurred $1.3 million in PIB acquisition related expenses during three months ended March 31, 2013. These expenses were comprised of salaries and benefits, occupancy expenses, professional services, and other non-interest expense.

4. 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 our 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 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 ("FMV") 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 FMV on the date of grant. Performance units are awarded to a

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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 Center Financial Corporation 2006 Stock Incentive Plan, adopted April 12, 2006, as amended and restated June 13, 2007 (the "2006 Plan"), which was assumed by the Company during the merger with Center Bank.

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 must be not 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 and 2006 Plans 2,649,025 shares were available for future grants as of March 31, 2013.

The total shares reserved for issuance will serve as the underlying value for all equity awards under the 2007 and 2006 Plans. 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.

The following is a summary of stock option activity under the 2007 and 2006 Plans for the three months ended March 31, 2013:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding - January 1, 2013	797,805	$16.70		
Granted	—	—		
Exercised	(48,000)	8.64		
Forfeited	—	—		
Outstanding - March 31, 2013	749,805	$17.21	2.56	$856,000
Options exercisable - March 31, 2013	741,805	$17.31	2.48	$820,000
Unvested options expected to vest after March 31, 2013	8,000	$8.64	9.51	$36,000

The following is a summary of restricted and performance unit activity under the 2007 and 2006 Plans for the three months ended March 31, 2013:

	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (Years)
Outstanding - January 1, 2013	512,183	$9.78	
Granted	5,000	13.15	
Vested	(58,740)	9.40	
Forfeited	(16,650)	10.42	

Outstanding - March 31, 2013	441,793	$9.84	8.81

The total fair value of performance units vested for the three months ended March 31, 2013 and 2012 was $718 thousand and $0, respectively.

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The amount charged against income related to stock-based payment arrangements was $709 thousand and $398 thousand, before income tax benefit of $67 thousand and $169 thousand, for the three months ended March 31, 2013 and 2012, respectively. At March 31, 2013, unrecognized compensation expense related to non-vested stock option grants and restricted and performance units aggregated $2.0 million, and is expected to be recognized over a remaining weighted average vesting period of 1.83 years.
The estimated annual stock-based compensation expense as of March 31, 2013 for each of the succeeding years is indicated in the table below:

	Stock Based Compensation Expense (In thousands)
Remainder of 2013	$ 651
For the year ended December 31:	
2014	610
2015	589
2016	96
2017	7
Total	$ 1,953

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5. 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 available to common stockholders 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 March 31, 2013 and 2012, stock options and restricted shares awards for approximately 565,000 shares and 564,000 shares of common stock, respectively, were excluded in computing diluted earnings per common share because they were antidilutive. Additionally, warrants to purchase 18,045 shares and 337,480 of common stock (related to the TARP Capital Purchase Plan) were antidilutive and excluded for the three months ended March 31, 2013 and 2012. The following table shows the computation of basic and diluted EPS for the three ended March 31, 2013 and 2012.

	For the three months ended March 31,					
	2013			2012		
	Net income available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)	Net income available to common stockholders (Numerator)	Shares (Denominator)	Per Share (Amount)
	(In thousands, except share and per share data)					
Net income as reported	$17,461			$23,934		
Less: preferred stock dividends and accretion of preferred stock discount	—			(1,869)		
Basic EPS - common stock	$17,461	78,389,434	$0.22	$22,065	77,987,342	$0.28
Effect of Dilutive Securities:						
Stock Options and Performance Units		79,311			73,323	
Common stock warrants		11,926			41,153	
Diluted EPS - common stock	$17,461	78,480,671	$0.22	$22,065	78,101,818	$0.28

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6. Securities Available for Sale

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

	At March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Debt securities:				
GSE collateralized mortgage obligations*	$299,271	$4,451	$(1,138)	$302,584
GSE mortgage-backed securities*	381,570	9,150	(994)	389,726
Trust preferred securities	4,505	—	(573)	3,932
Municipal bonds	5,706	575	—	6,281
Total debt securities	691,052	14,176	(2,705)	702,523
Mutual funds - GSE mortgage related securities	14,710	208	—	14,918
	$705,762	$14,384	$(2,705)	$717,441

	At December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Debt securities:				
GSE collateralized mortgage obligations*	$249,373	$5,649	$(110)	$254,912
GSE mortgage-backed securities*	415,925	10,277	(662)	425,540
Trust preferred securities	4,502	—	(665)	3,837
Municipal bonds	4,506	612	—	5,118
Total debt securities	674,306	16,538	(1,437)	689,407
Mutual funds - GSE mortgage related securities	14,710	286	—	14,996
	$689,016	$16,824	$(1,437)	$704,403

* Government Sponsored Enterprises (GSE) investments were issued by GNMA, FNMA and FHLMC and are all residential mortgage-backed investments.

As of March 31, 2013 and December 31, 2012, 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 March 31, 2013 and 2012, $3.7 million and $1.1 million of gross unrealized losses, respectively, were included in accumulated other comprehensive income during the period. A total of $54 thousand and $816 thousand were reclassified out of accumulated other comprehensive income into earnings for the three months ended March 31, 2013 and 2012, respectively, as a result of securities being sold. The proceeds from sales of securities and the associated gross gains and losses recorded in earnings are listed below:

	For the three months ended March 31,	
	2013	2012
	(In thousands)	
Proceeds	$6,636	$1,883
Gross gains	54	816
Gross losses	—	—

The amortized cost and estimated fair value of debt securities at March 31, 2013, 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.

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	Amortized Cost	Estimated Fair Value
	(In thousands)	
Available for sale:		
Due within one year	$—	$—
Due after one year through five years	340	356
Due after five years through ten years	3,883	4,393
Due after ten years	5,988	5,464
GSE collateralized mortgage obligations	299,271	302,584
GSE mortgage-backed securities	381,570	389,726
Mutual funds - GSE mortgage related securities	14,710	14,918
	$705,762	$717,441

Securities with carrying values of approximately $346.0 million and $338.6 million at March 31, 2013 and December 31, 2012, respectively, were pledged to secure public deposits, various borrowings and for other purposes as required or permitted by law.

The following table shows 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.

	At March 31, 2013								
	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)								
GSE collateralized mortgage obligations	10	$109,327	$(1,138)	—	$—	$—	10	$109,327	$(1,138)
GSE mortgage-backed securities	10	43,668	(925)	3	7,675	(69)	13	51,343	(994)
Trust preferred securities	—	—	—	1	3,932	(573)	1	3,932	(573)
	20	$152,995	$(2,063)	4	$11,607	$(642)	24	$164,602	$(2,705)

	At December 31, 2012								
	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)								
GSE collateralized mortgage obligations	3	$18,009	$(110)	—	$—	$—	3	$18,009	$(110)
GSE mortgage-backed	7	32,406	(597)	3	8,251	(65)	10	40,657	(662)

securities									
Trust Preferred securities	—	—	—	1	3,837	(665)	1	3,837	(665)
	10	$50,415	$(707)	4	$12,088	$(730)	14	$62,503	$(1,437)

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

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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 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 trust preferred securities at March 31, 2013 had an amortized cost of $4.5 million and an unrealized loss of $573 thousand at March 31, 2013. The trust preferred securities are scheduled to mature in May 2047. These securities are rated investment grade and there are no credit quality concerns with the obligor. Certain of the Company's GSE securities were in an unrealized loss position at March 31, 2013. All of the Company's GSE investments have high credit ratings ("AA" grade) upon purchase and there have been no credit rating changes since the purchase. Interest on the trust preferred securities and the GSE securities 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 are deemed to be due to the current market volatility and are not reflective of management's expectations of its ability to fully recover these investments, which may be at maturity. For these reasons, no OTTI was recognized on the trust preferred securities, GSE collateralized mortgage obligations and GSE mortgage-backed securities that are in an unrealized loss position at March 31, 2013.

The Company considers the losses on the investments in unrealized loss positions at March 31, 2013 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 management will not be required to sell a security in an unrealized loss position before recovery of its amortized cost basis.

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7. Loans Receivable and Allowance for Loan Losses

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

	March 31, 2013	December 31, 2012
	(In thousands)	
Loan portfolio composition		
Real estate loans:		
Residential	$10,667	$9,247
Commercial & industrial	3,294,978	3,100,466
Construction	69,087	65,045
Total real estate loans	3,374,732	3,174,758
Commercial business	943,860	921,556
Trade finance	134,393	152,070
Consumer and other	48,881	49,954
Total loans outstanding	4,501,866	4,298,338
Less: deferred loan fees	(1,820)	(2,086)
Gross loans receivable	4,500,046	4,296,252
Less: allowance for loan losses	(73,268)	(66,941)
Loans receivable, net	$4,426,778	$4,229,311

Our 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"). The 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) 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). The outstanding principal balance and the related carrying amount of the acquired PIB loans included in the statement of financial condition as of March 31, 2013 was $148.7 million and $130.0 million, respectively.

The following table presents changes in the accretable discount on the Acquired Credit Impaired Loans for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Balance at beginning of period	$18,652	$31,999
Additions due to acquisitions during the period	4,945	—
Accretion	(3,446)	(3,561)
Changes in expected cash flows	3,259	1,350
Balance at end of period	$23,410	$29,788

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the Acquired Credit Impaired Loans 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 Acquired Credit Impaired Loans 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 months ended March 31, 2013 and 2012:

	For the three months ended March 31, 2013								
	Legacy				Acquired				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Three Months Ended March 31, 2013									
Balance, beginning of period	$41,505	$ 16,490	$2,349	$658	$4,718	$ 1,115	$ 3	$103	$66,941
Provision (credit) for loan losses	3,069	39	(625)	(129)	5,320	(189)	(3)	24	7,506
Loans charged off	(905)	(183)	(26)	(7)	(151)	(124)	—	(33)	(1,429)
Recoveries of charged offs	40	176	—	16	2	7	—	9	250
Balance, end of period	$43,709	$ 16,522	$1,698	$538	$9,889	$ 809	$ —	$103	$73,268

	For the three months ended March 31, 2012								
	Legacy				Acquired				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Three Months Ended March 31, 2012									
Balance, beginning of period	$39,040	$ 20,681	$1,786	$445	$—	$ —	$ —	$—	$61,952
Provision (credit) for loan losses	(1,317)	1,627	(23)	548	1,254	477	16	18	2,600
Loans charged off	(1,934)	(1,362)	—	—	(14)	(47)	—	(25)	(3,382)
Recoveries of charged offs	20	645	60	17	303	87	—	7	1,139
Balance, end of period	$35,809	$ 21,591	$1,823	$1,010	$1,543	$ 517	$ 16	$—	$62,309

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The following tables disaggregate the allowance for loan losses and the loans receivables by impairment methodology at March 31, 2013 and December 31, 2012:

	March 31, 2013								
	Legacy				Acquired				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	$6,121	$ 2,692	$77	$ 10	$5,355	$ 807	$—	$—	$ 15,062
Collectively evaluated for impairment	37,588	13,830	1,621	528	—	2	—	103	53,672
Acquired Credit Impaired Loans	—	—	—	—	4,534	—	—	—	4,534
Total	$43,709	$ 16,522	$1,698	$538	$9,889	$ 809	$—	$ 103	$73,268
Loans outstanding:									
Individually evaluated for impairment	$41,077	$ 20,912	$6,886	$534	$28,488	$ 3,351	$—	$784	$ 102,032
Collectively evaluated for impairment	2,545,220	751,927	127,016	27,247	644,708	116,308	—	17,582	4,230,008
Acquired Credit Impaired Loans	—	—	—	—	115,239	51,362	491	2,734	169,826
Total	$2,586,297	$ 772,839	$133,902	$27,781	$788,435	$ 171,021	$491	$21,100	$4,501,866

	December 31, 2012								
	Legacy				Acquired				
	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	$4,723	$ 3,084	$96	$—	$ 183	$ 1,074	$—	$—	$9,160
Collectively evaluated for impairment	36,782	13,406	2,253	658	—	41	3	103	53,246
Acquired Credit Impaired Loans	—	—	—	—	4,535	—	—	—	4,535
Total	$41,505	$ 16,490	$2,349	$658	$4,718	$ 1,115	$3	$ 103	$66,941

Loans outstanding:									
Individually evaluated for impairment	$37,394	$23,951	$6,199	$536	$17,951	$3,323	$—	$802	$90,156
Collectively evaluated for impairment	2,387,080	729,904	144,173	27,284	628,449	114,621	242	18,257	4,050,010
Acquired Credit Impaired Loans	—	—	—	—	103,884	49,757	1,456	3,075	158,172
Total	$2,424,474	$753,855	$150,372	$27,820	$750,284	$167,701	$1,698	$22,134	$4,298,338

As of March 31, 2013 and December 31, 2012, the liability for unfunded commitments was $802 thousand for both periods. For the three months ended March 31, 2013 and 2012, no provision for credit losses was recognized related to unfunded commitments.

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The recorded investment in individually impaired loans was as follows:

	March 31, 2013	December 31, 2012
	(In thousands)	
With Allocated Allowance		
Without charge-off	$72,518	$65,526
With charge-off	1,125	2,599
With No Allocated Allowance		
Without charge-off	23,096	17,536
With charge-off	5,293	4,495
Allowance on Impaired Loans	(15,062)	(9,160)
Impaired Loans, net of allowance	$86,970	$80,996

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The following tables detail impaired loans (Legacy and Acquired) as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and for the year ended December 31, 2012. Loans with no related allowance for loan losses are believed by management to have adequate collateral securing their carrying value.

	As of March 31, 2013			For the three months ended March 31, 2013		For the three months ended March 31, 2012	
Total Impaired Loans	Recorded Investment*	Unpaid Contractual Principal Balance	Related Allowance	Average Recorded Investment*	Interest Income Recognized during Impairment	Average Recorded Investment*	Interest Income Recognized during Impairment
	(In thousands)						
With Related Allowance:							
Real Estate—Residential	$—	$ —	$—	$—	$—	$—	$—
Real Estate—Commercial							
Retail	7,680	7,885	1,387	6,578	51	2,169	12
Hotel & Motel	12,138	12,138	2,859	10,564	137	19,997	211
Gas Station & Car Wash	1,379	2,194	69	1,635	11	3,827	71
Mixed Use	952	970	276	926	13	3,965	73
Industrial & Warehouse	11,127	11,750	5,485	6,600	6	4,748	58
Other	11,157	12,199	1,400	13,670	159	13,754	100
Real Estate—Construction	—	—	—	—	—	64	—
Commercial Business	22,270	24,686	3,499	24,312	242	23,033	179
Trade Finance	6,886	7,884	77	6,543	73	2,468	7
Consumer and Other	54	54	10	55	1	240	—