BBCN BANCORP INC
Form 10-Q
August 09, 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 June 30, 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 (State or other jurisdiction of incorporation or organization)	95-4849715 (IRS Employer Identification Number)
3731 Wilshire Boulevard, Suite 1000, Los Angeles, California (Address of Principal executive offices)	90010 (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 August 2, 2013, there were 79,197,982 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) 6/30/2013	December 31, 2012
ASSETS	(In thousands, except share data)	
Cash and cash equivalents:		
Cash and due from banks	$81,003	$88,506
Interest-earning deposit at the Federal Reserve Bank (the "FRB")	215,327	224,410
Total cash and cash equivalents	296,330	312,916
Securities available for sale, at fair value	725,239	704,403
Loans held for sale, at the lower of cost or fair value	43,111	51,635
Loans receivable, net of allowance for loan losses (June 30, 2013 - $71,675; December 31, 2012 - $66,941)	4,446,447	4,229,311
Other real estate owned ("OREO"), net	9,596	2,698
Federal Home Loan Bank ("FHLB") stock, at cost	26,261	22,495
Premises and equipment, net of accumulated depreciation and amortization (June 30, 2013 - $24,089; December 31, 2012 - $22,201)	23,226	22,609
Accrued interest receivable	13,054	12,117
Deferred tax assets, net	73,899	60,240
Customers’ liabilities on acceptances	9,533	10,493
Bank owned life insurance	44,400	43,767
Investments in affordable housing partnerships	12,487	13,164
Goodwill	92,288	89,878
Other intangible assets, net	3,125	3,033
Prepaid FDIC insurance	—	7,574
FDIC loss share receivable	3,455	5,797
Other assets	40,563	48,531
Total assets	$5,863,014	$5,640,661

(Continued)

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

	(Unaudited) 6/30/2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS’ EQUITY	(In thousands, except share data)	
LIABILITIES:		
Deposits:		
Non-interest bearing	$1,210,563	$1,184,285
Interest bearing:		
Money market and NOW accounts	1,261,905	1,248,304
Savings deposits	181,672	180,686
Time deposits of $100,000 or more	1,276,147	1,088,611
Other time deposits	646,512	682,149
Total deposits	4,576,799	4,384,035
FHLB advances	421,539	420,722
Subordinated debentures	41,920	41,846
Accrued interest payable	4,499	4,355
Acceptances outstanding	9,533	10,493
Other liabilities	27,699	28,106
Total liabilities	5,081,989	4,889,557
STOCKHOLDERS’ EQUITY:		
Common stock, $0.001 par value; authorized 150,000,000 shares at June 30, 2013 and December 31, 2012; issued and outstanding, 79,205,840 and 78,041,511 shares at June 30, 2013 and December 31, 2012, respectively	79	78
Additional paid-in capital	537,085	525,354
Retained earnings	248,866	216,590
Accumulated other comprehensive income, net	(5,005)	9,082
Total stockholders’ equity	781,025	751,104
Total liabilities and stockholders’ equity	$5,863,014	$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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except share data)			
INTEREST INCOME:				
Interest and fees on loans	$65,473	$62,504	$128,502	$125,923
Interest on securities	3,526	4,249	6,953	9,158
Interest on federal funds sold and other investments	380	190	667	417
Total interest income	69,379	66,943	136,122	135,498
INTEREST EXPENSE:				
Interest on deposits	5,647	5,245	11,055	10,648
Interest on FHLB advances	1,218	1,603	2,442	3,229
Interest on other borrowings	411	593	806	1,260
Total interest expense	7,276	7,441	14,303	15,137
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	62,103	59,502	121,819	120,361
PROVISION FOR LOAN LOSSES	800	7,182	8,306	9,782
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	61,303	52,320	113,513	110,579
NON-INTEREST INCOME:				
Service fees on deposit accounts	2,922	3,269	5,797	6,429
International service fees	1,266	1,403	2,504	2,627
Loan servicing fees, net	1,036	810	2,005	2,147
Wire transfer fees	887	775	1,703	1,516
Other income and fees	1,204	1,354	2,453	2,694
Net gains on sales of SBA loans	3,295	2,463	5,989	5,426
Net gains on sales of other loans	19	146	62	146
Net gains on sales of securities available for sale	—	—	54	816
Net valuation gains on interest rate swaps and caps	—	10	—	13
Net (loss) gain on sales of OREO	(11)	(8)	(9)	53
Total non-interest income	10,618	10,222	20,558	21,867
NON-INTEREST EXPENSE:				
Salaries and employee benefits	16,219	14,658	32,551	28,737
Occupancy	4,835	4,232	8,846	7,878
Furniture and equipment	1,613	1,468	3,186	2,686
Advertising and marketing	1,190	1,525	2,463	2,983
Data processing and communications	1,861	1,573	3,505	3,184
Professional fees	1,443	1,069	2,744	1,682
FDIC assessments	858	51	1,552	1,088
Credit related expenses	2,203	2,290	3,918	4,470
Merger and integration expense	385	1,348	1,690	3,121
Other	3,822	2,863	7,249	5,683
Total non-interest expense	34,429	31,077	67,704	61,512
INCOME BEFORE INCOME TAX PROVISION	37,492	31,465	66,367	70,934
INCOME TAX PROVISION	14,821	12,101	26,235	27,636
NET INCOME	$22,671	$19,364	40,132	$43,298

DIVIDENDS AND DISCOUNT ACCRETION ON PREFERRED STOCK	$—	$(3,771)	$0	$(5,640)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$22,671	$15,593	$40,132	$37,658
EARNINGS PER COMMON SHARE				
Basic	$0.29	$0.20	$0.51	$0.48
Diluted	$0.29	$0.20	$0.51	$0.48

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$22,671	$19,364	$40,132	$43,298
Other comprehensive income (loss):				
Unrealized (loss) gain on securities available for sale and interest only strips	(19,699)	809	(23,353)	493
Reclassification adjustments for gains realized in income [1]	—	—	(54)	(816)
Tax expense (benefit)	(7,738)	269	(9,320)	(209)
Change in unrealized gain on securities available for sale and interest only strips	(11,961)	540	(14,087)	(114)
Reclassification adjustment for the deferred gain on early settlement of interest-rate caps [2]	—	(11)	—	(22)
Tax benefit	—	(5)	—	(9)
Change in unrealized gain on interest-rate caps, net of tax [3]	—	(6)	—	(13)
Total other comprehensive income (loss)	(11,961)	534	(14,087)	(127)
Total comprehensive income	$10,710	$19,898	$26,045	$43,171

(1) Reclassification adjustments were recognized in net gains on sales of securities available for sale in the consolidated statements of income.

(2) Reclassification adjustments were recognized in accumulated other comprehensive income in the consolidated statements of financial position.

(3) Reclassification adjustments were recognized in other income in the consolidated statements of income.

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)

	Preferred stock	Common 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
Redemption of 122,000 shares of TARP preferred stock	(122,000)					
Issuance of additional shares pursuant to various stock plans		29,855		200		
Stock-based compensation				1,141		
Preferred stock cash dividends accrued (5%)					(2,990)	
Accretion of preferred stock discount	2,650				(2,650)	
Comprehensive income:						
Net income					43,298	
Other comprehensive loss						(127)
BALANCE, JUNE 30, 2012	$—	78,014,107	$78	$525,985	$180,567	$ 8,831
BALANCE, JANUARY 1, 2013	$—	78,041,511	$78	$525,354	$216,590	$ 9,082
Acquisition of Pacific International Bank		632,050	1	8,640		
Issuance of additional shares pursuant to various stock plans		532,279		1,849		
Tax effect of stock plans				234		
Stock-based compensation				1,008		
Cash dividends declared on common stock					(7,856)	
Comprehensive income:						
Net income					40,132	
Other comprehensive loss						(14,087)
BALANCE, JUNE 30, 2013	$—	79,205,840	$79	$537,085	$248,866	$ (5,005)

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)

	Six Months Ended June 30, 2013	2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$40,132	$43,298
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization, net of discount accretion	(7,328)	(14,353)
Stock-based compensation expense	1,008	1,141
Provision for loan losses	8,306	9,782
Valuation adjustment of loans held for sale	—	668
Valuation adjustment of OREO	762	1,067
Proceeds from sales of loans	67,732	88,822
Originations of loans held for sale	(53,176)	(73,003)
Net gains on sales of SBA and other loans	(6,051)	(6,014)
Net change in bank owned life insurance	(633)	(605)
Net gains on sales of securities available for sale	(54)	(816)
Net gains on sales of OREO	9	(53)
Net valuation gains on interest rate swaps and caps	—	(13)
Change in accrued interest receivable	(513)	1,377
Change in deferred income taxes	2,976	7,604
Change in prepaid FDIC insurance	7,771	938
Change in investments in affordable housing partnership	677	1,206
Change in FDIC loss share receivable	2,342	1,781
Change in other assets	8,376	(10,384)
Change in accrued interest payable	70	(595)
Change in other liabilities	(4,832)	6,421
Net cash provided by operating activities	67,574	58,269
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	(84,982)	(128,519)
Proceeds from sales of securities available for sale	6,636	1,883
Proceeds from sales of OREO	1,425	3,160
Proceeds from matured term federal funds	—	100,000
Proceeds from sales of equipment	—	3
Purchase of premises and equipment	(3,348)	(3,494)
Purchase of securities available for sale	(147,995)	(15,457)
Purchase of FHLB stock	(1,969)	—
Redemption of FHLB stock	32	2,595
Purchase of term federal funds	—	(60,000)
Proceeds from matured or paid-down securities available for sale	101,604	84,735
Net cash received from acquisition	25,968	—
Redemption of preferred stock upon the acquisition	(7,475)	—
Net cash used in investing activities	(110,104)	(15,094)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	49,537	(56,693)
Redemption of preferred stock	—	(122,000)
Cash dividends paid on Preferred Stock	—	(3,647)

Redemption of subordinated debentures	(4,124)	(10,400)
Proceeds from FHLB advances	140,000	125,000
Repayment of FHLB advances	(153,697)	(96,124)
Cash dividends paid on Common Stock	(7,855)	—
Issuance of additional stock pursuant to various stock plans	2,083	200
Net cash used in financing activities	25,944	(163,664)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(16,586)	(120,489)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	312,916	300,110
CASH AND CASH EQUIVALENTS, END OF PERIOD	$296,330	$179,621
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$14,159	$15,732
Income taxes paid	$19,516	$19,022
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES		
Transfer from loans receivable to OREO	$4,396	$3,262
Non-cash goodwill adjustment, net	$(1,116)	$591
Pacific International Bank Acquisition:		

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

Assets acquired	$181,048	$—
Liabilities assumed	$(167,028)	$—

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, Seattle and metropolitan Washington, D.C. 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 June 30, 2013 and the results of operations for the three and six 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 has issued ASU No. 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. The amendments in this ASU clarify when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. Liquidation is the process by which a company converts its assets to cash or other assets and settles its obligations with creditors in anticipation of ceasing all of its activities. An organization in liquidation must prepare its financial statements using a basis of accounting that communicates information to users of those financial statements to enable those users to develop expectations about how much the organization will have available for distribution to investors after disposing of its assets and settling its obligations.

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.

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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.

Foster Bankshares, Inc.
On April 15, 2013, the Company entered into an Agreement and Plan of Merger with Foster Bankshares, Inc., a Delaware corporation and a Chicago-based company, ("Foster") dated April 15, 2013. At June 30, 2013, Foster had total assets of approximately $381.0 million, including $302.1 million of gross loans and $333.2 million in deposits. The transaction is valued at approximately $4.6 million, valuing each outstanding share of Foster common stock at $34.67. Foster shareholders will have a choice between electing to receive the cash value per share or, for shareholders who qualify as accredited investors, 2.62771 shares of BBCN common stock for each share of Foster common stock or a combination thereof, with no limitations on the consideration mix. The consideration for the transaction is subject to reduction in certain events. Foster has no outstanding options or warrants. The transaction is expected to be completed in the third quarter of 2013.

Pacific International Bancorp, Inc.
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:

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	(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	7,316	
Other assets	3,118	
Liabilities Assumed:		
Deposits	(143,665	)
Borrowings	(14,698	)
Subordinated debentures	(4,108	)
Other liabilities	(5,074	)
Total identifiable net assets	$13,503	
Excess of consideration paid over fair value of net assets acquired (goodwill)	$2,410	

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 were 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

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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 was provisional 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 $2.4 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.
The goodwill arising from the PIB acquisition was reduced by a net $1.1 million down to $92.3 million due to adjustments to the deferred tax asset, which was provisional as of March 31, 2013, and other adjustments of certain acquisition date fair value asset and liability estimates during the second quarter of 2013.

	For the three months ended June 30, 2013
	(In thousands)
Balance, beginning of period	$93,404
Acquired goodwill	—
Adjustment	(1,116)
Impairment	—
Balance, end of period	$92,288

The operating results of PIB from the date of acquisition through June 30, 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 and six month period ended June 30, 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 $81 thousand and $1.3 million in PIB acquisition related expenses during three months and six months ended June 30, 2013, respectively. 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 the 2007 Plan participants with those of the Company’s stockholders. The exercise price for shares under an ISO may not be less than 100% of fair market value (“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 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.

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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 2,659,119 shares were available for future grants as of June 30, 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 six months ended June 30, 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	(214,100)	8.64		
Forfeited	(43,844)	26.99		
Outstanding - June 30, 2013	539,861	$19.06	3.14	$120,000
Vested or expected to be vested - June 30, 2013	539,861	$19.06	3.14	$120,000
Options exercisable - June 30, 2013	531,861	$19.22	3.10	$75,000

The following is a summary of restricted and performance unit activity under the 2007 and 2006 Plans for the six months ended June 30, 2013:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding - January 1, 2013	512,183	$9.78
Granted	48,000	12.83
Vested	(306,140)	10.16
Forfeited	(29,550)	10.42
Outstanding - June 30, 2013	224,493	$10.75

The total fair value of performance units vested for the six months ended June 30, 2013 and 2012 was $3.9 million and $22 thousand, respectively.

The amount charged against income related to stock-based payment arrangements was $299 thousand and $743 thousand for the three months ended June 30, 2013 and 2012, respectively. For the six months ended June 30, 2013 and 2012, $1.0 million and $1.1 million was charged against income related to stock-based payment arrangements.

The income tax benefit recognized was $1.3 million and $308 thousand, for the three months ended June 30, 2013 and 2012, respectively, and the amount recognized was $1.2 million and $477 thousand for the six months ended June 30, 2013 and 2012, respectively.

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At June 30, 2013, total 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 weighted average vesting period of 2.84 years.

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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 June 30, 2013 and 2012, stock options and restricted shares awards for approximately 192,000 shares and 564,000 shares of common stock, respectively, were excluded in computing diluted earnings per common share because they were antidilutive. For the six months ended June 30, 2013 and 2012, stock options and restricted shares awards for approximately 199,000 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 19,000 shares and 15,000 shares of common stock (related to the TARP Capital Purchase Plan) were antidilutive and excluded for the three and six months ended June 30, 2013, respectively. Warrants to purchase 337,000 shares common stock (related to the TARP Capital Purchase Plan) were antidilutive and excluded for the three and six months ended June 30, 2012

The following table shows the computation of basic and diluted EPS for the three ended June 30, 2013 and 2012.

	For the three months ended June 30,					
	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	$22,671			$19,364		
Less: preferred stock dividends and accretion of preferred stock discount	—			(3,771)		
Basic EPS - common stock	$22,671	79,062,233	$0.29	$15,593	78,007,270	$0.20
Effect of Dilutive Securities:						
Stock Options and Performance Units		155,890			79,063	
Common stock warrants		18,609			55,194	
Diluted EPS - common stock	$22,671	79,236,732	$0.29	$15,593	78,141,527	$0.20

	For the six months ended June 30,					
	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	$40,132			$43,298		
Less: preferred stock dividends and accretion of preferred stock discount	—			(5,640)		
Basic EPS - common stock	$40,132	78,746,444	$0.51	$37,658	77,997,305	$0.48

Effect of Dilutive Securities:						
Stock Options and Performance Units		238,957			75,621	
Common stock warrants		15,410			48,333	
Diluted EPS - common stock	$40,132	79,000,811	$0.51	$37,658	78,121,259	$0.48

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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 June 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Debt securities:				
U.S. Government agency and U.S. Government sponsored enterprises				
Collateralized mortgage obligations	$307,186	$2,154	$(7,598)	$301,742
Mortgage-backed securities	401,159	3,901	(5,953)	399,107
Trust preferred securities	4,509	—	(738)	3,771
Municipal bonds	5,698	394	(36)	6,056
Total debt securities	718,552	6,449	(14,325)	710,676
Mutual funds	14,710	—	(147)	14,563
	$733,262	$6,449	$(14,472)	$725,239

	At December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Debt securities:				
U.S. Government agency and U.S. Government sponsored enterprises				
Collateralized mortgage obligations	$249,373	$5,649	$(110)	$254,912
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	14,710	286	—	14,996
	$689,016	$16,824	$(1,437)	$704,403

As of June 30, 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 June 30, 2013 and 2012, $19.7 million of gross unrealized losses and $809 thousand of gross unrealized gains, respectively, were included in accumulated other comprehensive income during the period. For the six months ended June 30, 2013 and 2012, $23.4 million of gross unrealized losses and $493 thousand of gross unrealized gains, 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 six months ended June 30, 2013 and 2012, respectively, as a result of securities being sold. There were no securities sold during the three month period ended June 30, 2013 and 2012.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	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 June 30, 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.

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Available for sale:		
Due within one year	$—	$—
Due after one year through five years	340	354
Due after five years through ten years	3,883	4,235
Due after ten years	5,984	5,238
U.S. Government agency and U.S. Government sponsored enterprises		
Collateralized mortgage obligations	307,186	301,742
Mortgage-backed securities	401,159	399,107
Mutual funds	14,710	14,563
	$733,262	$725,239

Securities with carrying values of approximately $366.6 million and $338.6 million at June 30, 2013 and December 31, 2012, respectively, were pledged to secure public deposits, various borrowings and for other purposes as required or permitted by law.

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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 June 30, 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)								
Collateralized mortgage obligations*	18	$175,605	$(7,597)	—	$—	$—	18	$175,605	$(7,597)
Mortgage-backed securities*	32	197,082	(5,839)	4	8,305	(114)	36	205,387	(5,953)
Trust preferred securities	—	—	—	1	3,771	(738)	1	3,771	(738)
Municipal bonds	1	1,156	(37)	—	—	—	1	1,156	(37)
Mutual funds	1	10,563	(147)	—	—	—	1	10,563	(147)
	52	$384,406	$(13,620)	5	$12,076	$(852)	57	$396,482	$(14,472)

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

	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)								
Collateralized mortgage obligations*	3	$18,009	$(110)	—	$—	$—	3	$18,009	$(110)
Mortgage-backed securities*	7	32,406	(597)	3	8,251	(65)	10	40,657	(662)
Trust Preferred securities	—	—	—	1	3,837	(665)	1	3,837	(665)
	10	$50,415	$(707)	4	$12,088	$(730)	14	$62,503	$(1,437)

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

The Company evaluates securities for other-than-temporary-impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair values of the securities have been less than the cost of the securities, and management's intention to sell, or whether it is more likely than not that management will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. In analyzing an issuer's financial condition, the Company considers 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 June 30, 2013 had an amortized cost of $4.5 million and an unrealized loss of $738 thousand at June 30, 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 U.S.

Government agency and U.S. Government sponsored enterprise investments were in an unrealized loss position at June 30, 2013. All of the Company's U.S. Government agency and U.S. Government sponsored enterprise investments have high credit ratings ("AA" grade). Interest on the trust preferred securities and the U.S. Government agency and U.S. Government sponsored enterprise investments have been paid as agreed, and management believes this will continue in the future and that the securities will be repaid in full as scheduled. The market value declines for these securities are deemed to be due to the current market volatility

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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 and the U.S. Government agency and U.S. Government sponsored collateralized mortgage obligations and mortgage-backed securities that are in an unrealized loss position at June 30, 2013.

The Company considers the losses on the investments in unrealized loss positions at June 30, 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:

	June 30, 2013	December 31, 2012
	(In thousands)	
Loan portfolio composition		
Real estate loans:		
Residential	$9,849	$9,247
Commercial & industrial	3,328,606	3,100,466
Construction	74,165	65,045
Total real estate loans	3,412,620	3,174,758
Commercial business	942,369	921,556
Trade finance	117,827	152,070
Consumer and other	47,088	49,954
Total loans outstanding	4,519,904	4,298,338
Less: deferred loan fees	(1,782)	(2,086)
Gross loans receivable	4,518,122	4,296,252
Less: allowance for loan losses	(71,675)	(66,941)
Loans receivable, net	$4,446,447	$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 June 30, 2013 was $143.0 million and $121.6 million, respectively.

The following table presents changes in the accretable discount on the Acquired Credit Impaired Loans for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Balance at beginning of period	$23,410	$29,788	$18,651	$31,999
Additions due to acquisitions during the period	—	—	4,945	—
Accretion	(3,586)	(3,890)	(7,032)	(7,451)
Changes in expected cash flows	17,266	(2,932)	20,526	(1,582)
Balance at end of period	$37,090	$22,966	$37,090	$22,966

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 and six months ended June 30, 2013 and 2012:

	Legacy Real Estate	Commercial Business	Trade Finance	Consumer and Other	Acquired Real Estate	Commercial Business	Trade Finance	Consumer and Other	Total
	(In thousands)								
Three Months Ended June 30, 2013									
Balance, beginning of period	$43,709	$ 16,522	$1,698	$538	$9,889	$ 809	$ —	$103	$73,268
Provision (credit) for loan losses	(1,057)	1,043	637	(20)	(233)	484	—	(54)	800
Loans charged off	(777)	(1,413)	—	(2)	(24)	(684)			