PACIFIC PREMIER BANCORP INC
Form 10-Q
August 09, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

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

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

(949) 864-8000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act).

Large accelerated filer	[ ]	Accelerated filer	[X]	Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes [ ] No [X]

The number of shares outstanding of the registrant's common stock as of August 8, 2013 was 16,641,991.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED JUNE 30, 2013

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	June 30, 2012 (Unaudited)
Cash and due from banks	$ 103,946	$ 59,325	$ 64,945
Federal funds sold	26	27	27
Cash and cash equivalents	103,972	59,352	64,972
Investment securities available for sale	313,047	84,066	146,134
FHLB/Federal Reserve Bank/TIB stock, at cost	11,917	11,247	12,744
Loans held for sale, net	3,617	3,681	2,401
Loans held for investment	1,055,430	982,207	795,319
Allowance for loan losses	(7,994)	(7,994)	(7,658)
Loans held for investment, net	1,047,436	974,213	787,661
Accrued interest receivable	5,766	4,126	3,968
Other real estate owned	1,186	2,258	9,339

Premises and equipment	9,997	8,575	9,429
Deferred income taxes	8,644	6,887	5,585
Bank owned life insurance	23,674	13,485	13,240
Intangible assets	7,135	2,626	2,781
Goodwill	18,234	-	-
Other assets	3,833	3,276	6,781
TOTAL ASSETS	$ 1,558,458	$ 1,173,792	$ 1,065,035
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing	$ 345,063	$ 213,636	$ 150,538
Interest bearing:			
Transaction accounts	631,951	329,925	327,556
Retail certificates of deposit	332,015	361,207	435,097
Wholesale certificates of deposit	5,160	-	-
Total deposits	1,314,189	904,768	913,191
FHLB advances and other borrowings	48,082	115,500	28,500
Subordinated debentures	10,310	10,310	10,310
Accrued expenses and other liabilities	17,066	8,697	16,965
TOTAL LIABILITIES	1,389,647	1,039,275	968,966
STOCKHOLDERS' EQUITY:			
Common stock, $.01 par value; 25,000,000 shares authorized; 16,635,786 shares at June 30, 2013, 13,661,648 shares at December 31, 2012, and 10,329,934 shares at June 30, 2012 issued and outstanding	166	137	103
Additional paid-in capital	142,759	107,453	76,258
Retained earnings	27,545	25,822	18,549
	(1,659)	1,105	1,159

Accumulated other comprehensive income (loss), net of tax (benefit) of ($1,160) at June 30, 2013, $772 at December 31, 2012, and $810 at June 30, 2012			
TOTAL STOCKHOLDERS' EQUITY	168,811	134,517	96,069
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,558,458	$ 1,173,792	$ 1,065,035

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
INTEREST INCOME				
Loans	$ 13,688	$ 12,098	$ 27,084	$ 23,335
Investment securities and other interest-earning assets	1,248	948	2,087	1,827
Total interest income	14,936	13,046	29,171	25,162
INTEREST EXPENSE				
Interest-bearing deposits:				
Interest on transaction accounts	280	223	498	552
Interest on certificates of deposit	753	1,224	1,554	2,651
Total interest-bearing deposits	1,033	1,447	2,052	3,203
FHLB advances and other borrowings	238	235	478	470
Subordinated debentures	76	82	153	166
Total interest expense	1,347	1,764	2,683	3,839
	13,589	11,282	26,488	21,323

NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES				
PROVISION FOR LOAN LOSSES	322	-	618	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,267	11,282	25,870	21,323
NONINTEREST INCOME				
Loan servicing fees	318	214	644	391
Deposit fees	457	472	897	973
Net gain from sales of loans	222	10	945	10
Net gain from sales of investment securities	1,068	174	1,068	174
Other-than-temporary impairment loss on investment securities, net	(5)	(45)	(35)	(82)
Gain on FDIC transaction	-	5,340	-	5,340
Other income	371	364	636	662
Total noninterest income	2,431	6,529	4,155	7,468
NONINTEREST EXPENSE				
Compensation and benefits	5,687	3,947	10,784	7,467
Premises and occupancy	1,329	981	2,622	1,859
Data processing and communications	755	817	1,390	1,184
Other real estate owned operations, net	574	590	611	737
FDIC insurance premiums	196	168	336	301
Legal, audit and professional expense	249	552	844	1,038
Marketing expense	264	264	470	479
Office and postage expense	322	217	585	380
Loan expense	184	177	432	413
Deposit expense	515	34	675	98
Merger related expense	4,978	-	6,723	-
Other expense	803	458	1,563	890
Total noninterest expense	15,856	8,205	27,035	14,846

NET INCOME (LOSS) BEFORE INCOME TAXES	(158)	9,606	2,990	13,945
INCOME TAX	91	3,795	1,267	5,442
NET INCOME (LOSS)	$ (249)	$ 5,811	$ 1,723	$ 8,503
EARNINGS (LOSS) PER SHARE				
Basic	$ (0.02)	$ 0.56	$ 0.12	$ 0.82
Diluted	$ (0.02)	$ 0.55	$ 0.11	$ 0.80
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	15,516,537	10,329,934	14,939,179	10,332,935
Diluted	15,516,537	10,669,005	15,721,262	10,647,590

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	$ (249)	$ 5,811	$ 1,723	$ 8,503
Other comprehensive income (loss), net of tax (benefit):				
Unrealized holding gains on securities arising during the period	(6,548)	1,118	(5,764)	1,256
Reclassification adjustment for net gain on sale of securities included in net income (1)	1,068	174	1,068	174
Income tax (benefit)	(2,255)	532	(1,932)	589
Net unrealized gain (loss) on securities, net of tax	(3,225)	760	(2,764)	841
Comprehensive income (loss)	$ (3,474)	$ 6,571	$ (1,041)	$ 9,344

(1) Income tax expense associated with the reclassification adjustment for the three months ended June 30, 2013 and 2012 was $438 and $71, respectively, and the six months ended June 30, 2013 and 2012 was $438 and $71, respectively.

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2012	13,661,648	$ 137	$ 107,453	$ 25,822	$ 1,105	$ 134,517
Net Income				1,723		1,723
Other comprehensive loss					(2,764)	(2,764)
Share-based compensation expense			423			423
Common stock repurchased and retired	(3,666)	-	(22)			(22)
Common stock issued	2,972,472	29	34,895			34,924
Stock options exercised	5,332	-	10			10
Balance at June 30, 2013	16,635,786	$ 166	$ 142,759	$ 27,545	$ (1,659)	$ 168,811
Balance at December 31, 2011	10,337,626	$ 103	$ 76,310	$ 10,046	$ 318	$ 86,777
Net Income				8,503		8,503
Other comprehensive income					841	841
Share-based compensation expense			27			27
	(13,022)	-	(102)			(102)

Common stock repurchased and retired						
Stock options exercised	5,330	-	23			23
Balance at June 30, 2012	10,329,934	$ 103	$ 76,258	$ 18,549	$ 1,159	$ 96,069

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

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

	Six Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,723	$ 8,503
Adjustments to net income:		
Depreciation and amortization expense	904	642
Provision for loan losses	618	-
Share-based compensation expense	423	27
Loss (gain) on sale of other real estate owned	226	305
Write down of other real estate owned	354	302
Amortization of premium/discounts on securities held for sale, net	1,366	378
Amortization of loan mark-to-market discount from FDIC transaction	(1,529)	(1,048)
Gain on sale of loans held for sale	-	(10)
Gain on sale of investment securities available for sale	(1,068)	(174)

Other-than-temporary impairment loss on investment securities, net	35	82
Gain on sale of loans held for investment	(945)	-
Purchase and origination of loans held for sale	-	(2,995)
Recoveries on loans	229	95
Principal payments from loans held for sale	64	595
Gain on FDIC transaction	-	(5,340)
Deferred income tax provision	(1,757)	3,413
Change in accrued expenses and other liabilities, net	6,011	(159)
Income from bank owned life insurance, net	(282)	(263)
Change in accrued interest receivable and other assets, net	437	(1,364)
Net cash provided by operating activities	6,809	2,989
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	86,720	92,770
Net change in undisbursed loan funds	146,741	57,361
Purchase and origination of loans held for investment	(236,886)	(143,900)
Proceeds from sale of other real estate owned	1,488	5,315
Principal payments on securities available for sale	16,600	7,505
Purchase of securities available for sale	(6,208)	(70,467)
Proceeds from sale or maturity of securities	102,755	44,151

available for sale		
Purchases of premises and equipment	(1,055)	(252)
Purchase of Federal Reserve Bank stock	(1,276)	63
Redemption of FHLB stock	1,259	1,058
Cash acquired in PDNB transaction	-	39,491
Cash acquired in acquisitions, net	138,752	-
Net cash provided by investing activities	248,890	33,095
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposit accounts	(131,304)	(31,268)
Repayment of FHLB advances and other borrowings	(84,323)	-
Proceeds from issuance of common stock, net of issuance cost	4,560	-
Proceeds from exercise of stock options	10	23
Repurchase of common stock	(22)	(102)
Net cash (used in) provided by financing activities	(211,079)	(31,347)
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,620	4,737
CASH AND CASH EQUIVALENTS, beginning of period	59,352	60,235
CASH AND CASH EQUIVALENTS, end of period	$ 103,972	$ 64,972

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands) (unaudited)	Six Months Ended June 30, 2013	2012
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Interest paid	$ 2,637	$ 3,827
Income taxes paid	5,850	3,775
Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 3):		
Investment securities	347,196	101
FRB and FHLB Stock	-	1,390
FHLB Stock and TIB Stock	653	-
FDIC receivable	-	167
Loans	68,815	63,773
Core deposit intangible	4,766	840
Other real estate owned	752	11,533
Goodwill	18,234	-
Fixed assets	1,446	-
Other assets	7,800	3,656
Deposits	(540,725)	(115,582)
Other borrowings	(16,905)	-
Other liabilities	(6,276)	(29)
Additional paid-in capital	(30,364)	-
NONCASH INVESTING ACTIVITIES DURING THE PERIOD		
Transfers from loans to other real estate owned	$ 244	$ 2,497
Investment securities available for sale purchased and not settled	$ -	$ 10,460

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013
(UNAUDITED)

Note 1 - Basis of Presentation

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

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2013, December 31, 2012, and June 30, 2012, the results of its operations and comprehensive income for the three and six months ended June 30, 2013 and 2012 and the changes in stockholders’ equity and cash flows for the three and six months ended June 30, 2013 and 2012. Operating results or comprehensive income for the three and six months ended June 30, 2013 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2013.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, as amended (the “2012 Annual Report”).

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

Note 2 – Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updated (“ASU”) 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities”. ASU 2011-11 affects all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information is intended to enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. The amended guidance is effective for interim and annual periods beginning after January 1, 2013 and should be applied retrospectively to all periods presented. The adoption of the disclosure requirements had no impact on the Company’s consolidated financial statements.

In October 2012, the FASB issued ASU 2012-06, "Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution." The amendments in this update clarify the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. The update provides that changes in cash flows expected to be collected on the indemnification asset arising subsequent to initial recognition as a result of changes in cash flows expected to be collected on the related indemnified assets should be accounted for on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement. The Company is required to adopt this update prospectively for the quarter ending June 30, 2013. The requirements of the update are consistent with the Company's existing accounting policy; therefore, adoption has no impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This update requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required 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. The adoption of the disclosure requirements had no impact on the Company’s consolidated financial statements.

Note 3 – Acquisitions

San Diego Trust Bank (“SDTB”) Acquisition

Effective June 25, 2013, the Bank acquired SDTB (“SDTB Acquisition”), a San Diego, California based state-chartered bank, pursuant to the terms of a definitive agreement entered into by the Corporation, the Bank and SDTB on March 6, 2013. As a result of the SDTB Acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $201.1 million, including:

$125.9 million in investment securities, including Federal Home Loan Bank (“FHLB”) stock;

$42.4 million of loans;

$14.1 million of cash and cash equivalents;

$6.4 million in goodwill;

$5.8 million in bank owned life insurance;

$3.7 million of other types of assets; and

$2.8 million of a core deposit intangible.

Also as a result of the SDTB Acquisition, the Bank recorded equity of $14.4 million in connection with the Corporation’s stock issued to SDTB shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $186.7 million, including:

$178.8 million in deposit transaction accounts;

$5.1 million in retail certificates of deposit;

$1.9 million other liabilities; and

$922,000 in deferred tax liability.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB Accounting Standards Codification ("ASC") Topic 820: Fair Value Measurements and Disclosures.

The acquisition is an opportunity for the Company to acquire a banking network that will complement our existing banking franchise and expand our footprint into a new market. Additionally, this partnership will improve the Company's deposit base, lower its cost of deposits and provide the opportunity to accelerate future core deposit growth. Additionally, the acquisition of SDTB allowed the Company to deploy a portion of its current capital base into a compelling investment.

First Associations Bank ("FAB") Acquisition

Effective March 15, 2013, the Bank acquired FAB ("FAB Acquisition"), a Dallas, Texas, based Texas-chartered bank, pursuant to the terms of a definitive agreement entered into by the Corporation, the Bank and FAB on October 15, 2012. As a result of the FAB Acquisition, the Bank acquired and recorded at the acquisition date assets with a fair value of approximately $394.1 million, including:

$223.0 million in investment securities, including FHLB and TIB-The Independent Bankers Bank ("TIB") stock;

$124.7 million of cash and cash equivalents;

$26.4 million of loans;

$11.9 million in goodwill;

$6.2 million of other types of assets; and

$1.9 million of a core deposit intangible.

Also as a result of the FAB Acquisition, the Bank recorded equity of $15.9 million in connection with the Corporation's stock issued to FAB shareholders as part of the acquisition consideration and assumed at acquisition date liabilities with a fair value of approximately $378.2 million, including:

$329.5 million in deposit transaction accounts;

$17.4 million in retail certificates of deposit;

$9.9 million in wholesale deposits;

$16.9 million in other borrowings;

$3.9 million in deferred tax liability; and

$536,000 of other liabilities.

The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures.

The acquisition is a unique opportunity for the Company to acquire a highly efficient, consistently profitable and niche focused business that will complement our existing banking franchise. Additionally, this partnership will improve the Company’s deposit base, lower its cost of deposits and provide the platform to accelerate future core deposit growth. Additionally, the acquisition of FAB allowed the Company to deploy a portion of its current capital base into a compelling investment.

Palm Desert National Bank (“Palm Desert National”) Acquisition

Effective April 27, 2012, the Bank acquired certain assets and assumed certain liabilities of Palm Desert National Bank (“Palm Desert National”) from the Federal Deposit Insurance Corporation (“FDIC”) as receiver for Palm Desert National (the “Palm Desert National Acquisition”), pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on April 27, 2012. The Palm Desert National Acquisition included one branch of Palm Desert National that became a branch of the Bank upon consummation of the Palm Desert National Acquisition. The Bank did not enter into any loss sharing agreements with the FDIC in connection the Palm Desert National Acquisition. As a result of the Palm Desert National Acquisition, the Bank acquired and recorded at the acquisition date certain assets with a fair value of approximately $120.9 million, including $63.8 million of loans, $39.5 million of cash and cash equivalents, $11.5 million of other real estate owned (“OREO”), $1.5 million in investment securities, including FHLB stock and Federal Reserve Bank stock, $840,000 of a core deposit intangible and $3.8 million of other types of assets. Liabilities with a fair value of approximately $118.0 million, including $50.1 million in deposit transaction accounts, $30.8 million in retail certificates of deposit, $34.1 million in whole sale certificates of deposits, which were purposefully run off during the second quarter of 2012, $2.4 million in deferred tax liability and $578,000 of other liabilities. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures.

Canyon National Bank (“Canyon National) Acquisition

Effective February 11, 2011, the Bank acquired certain assets and assumed certain liabilities of Canyon National Bank (“Canyon National”) from the FDIC as receiver for Canyon National (the “Canyon National Acquisition”), pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on February 11, 2011. The Canyon National Acquisition included the three branches of Canyon National, all of which became branches of the Bank upon consummation of the Canyon National Acquisition. The Bank did not enter into any loss sharing agreements with the FDIC in connection with the Canyon National Acquisition. As a result of the Canyon National Acquisition, the Bank acquired and received certain assets with a fair value of approximately $208.9 million, including $149.7 million of loans, $16.1 million of a FDIC receivable, $13.2 million of cash and cash equivalents, $12.8 million of investment securities, $12.0 million of OREO, $2.3 million of a core deposit intangibles, $1.5 million of other assets and $1.3 million of FHLB and Federal Reserve Bank stock. Liabilities with a fair value of approximately $206.6 million were also assumed, including $204.7 million of deposits, $1.9 million in deferred tax liability and $39,000 of other liabilities. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of FASB ASC Topic 820: Fair Value Measurements and Disclosures.

Note 4 – Investment Securities

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

	June 30, 2013			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities				

available for sale:				
U.S. Treasury	$ 73	$ 10	$ -	$ 83
Corporate	9,169	-	-	9,169
Municipal bonds	96,257	226	(1,736)	94,747
Mortgage-backed securities	210,367	736	(2,055)	209,048
Total securities available for sale	315,866	972	(3,791)	313,047

	December 31, 2012			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	$ 147	$ 12	$ -	$ 159
Municipal bonds	25,401	1,186	(1)	26,586
Mortgage-backed securities	56,641	1,162	(482)	57,321
Total securities available for sale	82,189	2,360	(483)	84,066

	June 30, 2012			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	$ 247	$ 14	$ -	$ 261
Municipal bonds	39,928	1,259	(71)	41,116
Mortgage-backed securities	103,990	1,389	(622)	104,757
Total securities available for sale	144,165	2,662	(693)	146,134

At June 30, 2013, the Company had an $8.6 million investment in FHLB stock carried at cost. During the second quarter of 2013, the FHLB has repurchased $1.9 million of the Company’s excess FHLB stock through its stock repurchase program.

At June 30, 2013, mortgage-backed securities (“MBS”) with an estimated par value of $34.8 million and a fair value of $36.0 million were pledged as collateral for the Bank’s three reverse repurchase agreements which totaled $28.5 million.

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

	June 30, 2013								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	122	$51,937	$(1,736)	-	$-	$-	122	$51,937	$(1,736)
Mortgage-backed securities	29	86,940	(1,916)	17	713	(138)	46	87,653	(2,054)
Total	151	$138,877	$(3,652)	17	$713	$(138)	168	$139,590	$(3,790)

	December 31, 2012								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	1	$292	$(1)	-	$-	$-	1	$292	$(1)
Mortgage-backed securities	2	15,128	(152)	31	1,012	(330)	33	16,140	(482)
Total	3	$15,420	$(153)	31	$1,012	$(330)	34	$16,432	$(483)

	June 30, 2012								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	12	$5,245	$(71)	-	$-	$-	12	$5,245	$(71)
Mortgage-backed securities	7	21,090	(82)	41	1,185	(540)	48	22,275	(622)
Total	19	$26,335	$(153)	41	$1,185	$(540)	60	$27,520	$(693)

The amortized cost and estimated fair value of investment securities available for sale at June 30, 2013, by contractual maturity are shown in the table below.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)									
Investment securities available for sale:										
U.S. Treasury	$-	$-	$73	$83	$-	$-	$-	$-	$73	$83
Corporate	2,006	2,006	7,163	7,163	-	-	-	-	9,169	9,169
Municipal bonds	-	-	7,998	7,900	43,271	42,550	44,988	44,297	96,257	94,747
Mortgage-backed securities	-	-	51	54	16,080	15,931	194,235	193,063	210,366	209,048
Total investment securities available for sale	2,006	2,006	15,285	15,200	59,351	58,481	239,223	237,360	315,865	313,047

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

Unrealized gains and losses on investment securities available for sale are recognized in stockholders' equity as accumulated other comprehensive income (loss). At June 30, 2013, the Company had accumulated other comprehensive loss of $2.8 million, or $1.7 million net of tax, compared to accumulated other comprehensive income of $1.9 million, or $1.1 million net of tax, at December 31, 2012.

Note 5 – Loans Held for Investment

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

	June 30, 2013	December 31, 2012	June 30, 2012
	(in thousands)		
Business loans:			
Commercial and industrial	$ 146,240	$ 115,354	$ 84,191
Commercial owner occupied (1)	201,802	150,934	150,428
SBA	5,820	6,882	3,995
Warehouse facilities	135,317	195,761	61,111

Real estate loans:			
Commercial non-owner occupied	295,767	253,409	242,700
Multi-family	172,797	156,424	183,742
One-to-four family (2)	84,672	97,463	56,694
Construction	2,135	-	281
Land	10,438	8,774	11,191
Other loans	4,969	1,193	4,019
Total gross loans (3)	1,059,957	986,194	798,352
Less loans held for sale, net	3,617	3,681	2,401
Total gross loans held for investment	1,056,340	982,513	795,951
Less:			
Deferred loan origination costs (fees) and premiums (discounts), net	(910)	(306)	(632)
Allowance for loan losses	(7,994)	(7,994)	(7,658)
Loans held for investment, net	$ 1,047,436	$ 974,213	$ 787,661

(1) Majority secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans for June 30, 2013 is net of the mark-to-market discounts on Canyon National loans of $2.1 million, on Palm Desert National loans of $4.0 million, and on SDTB loans of $560,000 and of the mark-to-market premium on FAB loans of $103,000.

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

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

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $45.2 million for secured loans and $27.1 million for unsecured loans at June 30, 2013. At June 30, 2013, the Bank's largest aggregate outstanding balance of loans to one borrower was $35.0 million of secured credit.

Purchased Credit Impaired

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

	June 30, 2013		
	Canyon National	Palm Desert National	Total
		(in thousands)	
Business loans:			
Commercial and industrial	$ 81	$ 185	$ 266
Commercial owner occupied (1)	942	-	942
Real estate loans:			
Commercial non-owner occupied	1,019	-	1,019
One-to-four family (2)	-	24	24
Land	1,066	-	1,066
Total purchase credit impaired	$ 3,108	$ 209	$ 3,317

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the "accretable yield." The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At June 30, 2013, the Company had $3.3 million of purchased credit impaired loans, of which $21,000 were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired for the six months ended June 30, 2013:

	Six Months Ended June 30, 2013		
	Canyon National	Palm Desert National	Total
	(in thousands)		
Balance at the beginning of period	$ 2,029	$ 247	$ 2,276
Accretable yield at acquisition	-	-	-
Accretion	(243)	(44)	(287)
Disposals and other	-	(514)	(514)
Change in accretable yield	157	448	605
Balance at the end of period	$ 1,943	$ 137	$ 2,080

Impaired Loans

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

	Impaired Loans						
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
June 30, 2013							
Business loans:							
Commercial and industrial	$ 423	$ 308	$ 233	$ 76	$ 233	$ 454	$ 19
Commercial owner	-	-	-	-	-	122	-

occupied							
SBA	-	-	-	-	-	84	1
Real estate loans:							
Commercial non-owner occupied	531	450	-	450	-	1,254	3
Multi-family	1,046	1,035	-	1,035	-	217	2
One-to-four family	836	813	501	312	360	837	26
Totals	$ 2,836	$ 2,606	$ 734	$ 1,873	$ 593	$ 2,968	$ 51

Impaired Loans

	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
December 31, 2012							
Business loans:							
Commercial and industrial	$ 707	$ 593	$ 287	$ 306	$ 270	$ 203	$ 29
Commercial owner occupied	-	-	-	-	-	444	-
SBA	810	259	-	259	-	468	21
Real estate loans:							
Commercial non-owner occupied	746	670	-	670	-	1,031	59
Multi-family	315	266	-	266	-	1,123	22
One-to-four family	960	948	541	407	395	720	59
Totals	$ 3,538	$ 2,736	$ 828	$ 1,908	$ 665	$ 3,989	$ 190

Impaired Loans