WIRELESS FACILITIES INC
Form 4
February 01, 2007

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
ANDERSON SCOTT I

(Last) (First) (Middle)

4810 EASTGATE MALL

(Street)

SAN DIEGO, CA 92121

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WIRELESS FACILITIES INC [WFII]

3. Date of Earliest Transaction (Month/Day/Year)
01/30/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. De Sec

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					(In
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Restricted Stock Units	(1)	01/30/2007		A		10,000		(2)	(2)	Common Stock	10,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ANDERSON SCOTT I 4810 EASTGATE MALL SAN DIEGO, CA 92121	X			

Signatures

Scott I. Anderson, by Matthew G. Colvin, Attorney-in-Fact	02/01/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Each restricted stock unit represents a contingent right to receive one share of issuer's common stock.

(2) The restricted stock units vest in four equal installments beginning January 30, 2008. Vested shares will be delivered to the reporting person on the first date which is administratively practicable for the distribution of the vested shares after termination of service with the issuer.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Total

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[1] Based on repurchase requests received between January 1, 2015 and September 30, 2015.

Explanation of Responses:

The reserve for residential mortgage loan repurchase losses of $1.0 million at September 30, 2015 represents our best estimate of the probable loss that we may incur due to the representations and warranties in our loan sales contracts with investors. This represents a $1.7 million decrease from December 31, 2014, which was primarily due to the elimination of the unallocated component of the repurchase reserve noted above. The table below shows changes in the repurchase losses liability for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Balance, beginning of period	$2,591	$2,929	$2,685	$2,949
Change in estimate	(1,585)	234	(1,458)	542
Utilizations	(23)	(101)	(244)	(429)
Balance, end of period	$983	$3,062	$983	$3,062

We believe that our capacity to estimate repurchase losses is improving as we record additional experience and could affect the level of the repurchase reserve. Repurchase losses depend upon economic factors and other external conditions that may change over the life of the underlying loans. Additionally, lack of access to the servicing records of loans sold on a service released basis adds difficulty to the estimation process, thus requiring considerable management judgment. To the extent that future investor repurchase demand and appeals success differ from past experience, we could have increased demands and increased loss severities on repurchases, causing future changes to the repurchase reserve.

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Other Intangible Assets

Other intangible assets include a core deposit premium and mortgage servicing rights.

Our core deposit premium is being amortized using the straight-line method over 14 years which approximates the estimated life of the purchased deposits. The carrying value of our core deposit premium is periodically evaluated to estimate the remaining periods of benefit. If these periods of benefit are determined to be less than the remaining amortizable life, an adjustment to reflect such shorter life will be made.

We utilize the amortization method to measure our mortgage servicing rights. Under the amortization method, we amortize our mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans. Amortization of the servicing rights is reported as amortization of other intangible assets in our consolidated statements of operations. Ancillary income is recorded in other income. Mortgage servicing rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify our entire mortgage servicing rights into one pool.

Initial fair value of the servicing right is calculated by a discounted cash flow model based on market value assumptions at the time of origination. We assess the servicing right for impairment using current market value assumptions at each reporting period. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates, costs to service and ancillary income. Variations in our assumptions could materially affect the estimated fair values. Changes to our assumptions are made when current trends and market data indicate that new trends have developed. Current market value assumptions based on loan product types (fixed rate, adjustable rate and balloon loans) include average discount rates and national prepayment speeds. Many of these assumptions are subjective and require a high level of management judgment.

Prepayment speeds may be affected by economic factors such as changes in home prices, market interest rates, the availability of alternative credit products to our borrowers and customer payment patterns. Prepayment speeds include the impact of all borrower prepayments, including full payoffs, additional principal payments and the impact of loans paid off due to foreclosure liquidations. As market interest rates decline, prepayment speeds will generally increase as customers refinance existing mortgages under more favorable interest rate terms. As prepayment speeds increase, anticipated cash flows will generally decline resulting in a potential reduction, or impairment, to the fair value of the capitalized mortgage servicing rights. Alternatively, an increase in market interest rates may cause a decrease in prepayment speeds and therefore an increase in fair value of mortgage servicing rights.

The fair value of our mortgage servicing rights is validated by first ensuring the completeness and accuracy of the loan data used in the valuation analysis. Additionally, the critical assumptions which come from independent sources are reviewed and include comparing actual results to forecast assumptions or evaluating the reasonableness of market assumptions in relation to the values and trends of assumptions used by peer banks. The validation process also includes reviewing key metrics such as the fair value as a percentage of the total unpaid principal balance of the mortgages serviced, and the resulting percentage as a multiple of the net servicing fee. These key metrics are tracked to ensure the trends are reasonable, and are periodically compared to peer banks.

We perform an impairment assessment of our other intangible assets whenever events or changes in circumstance indicate that the carrying value of those assets may not be recoverable. Our impairment assessments involve, among other valuation methods, the estimation of future cash flows and other methods of determining fair value. Estimating future cash flows and determining fair values is subject to judgments and often involves the use of significant estimates and assumptions. The variability of the factors we use to perform our impairment tests depend on a number of conditions, including the uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors.

Deferred Tax Assets and Tax Contingencies

Deferred tax assets (“DTAs”) and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the DTAs will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years, to the extent that carrybacks are permitted under current tax laws, as well as estimates of future taxable income and tax planning strategies that could be implemented to accelerate taxable income, if necessary. If our estimates of future taxable income were materially overstated or if our assumptions regarding the tax consequences of tax planning strategies were inaccurate, some or all of our DTAs may not be realized, which would result in a charge to earnings. In the third quarter of 2009, we established a full valuation allowance against our net DTAs. See “-

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Results of Operations - Income Taxes" below. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios and the expectation of continued profitability, the Company determined that it was more likely than not that our net DTA would be realized. As a result, in the first quarter of 2013, the Company reversed a significant portion of the valuation allowance. As of September 30, 2015, given our nineteen consecutive quarters of profitability, significant improvement in our asset quality, and well capitalized position, we continue to believe that it is more likely than not that our net DTA will be realized.

Income tax contingency reserves are established for potential tax liabilities related to uncertain tax positions. Tax benefits are recognized when we determine that it is more likely than not that such benefits will be realized. Where uncertainty exists due to the complexity of income tax statutes and where the potential tax amounts are significant, we generally seek independent tax opinions to support our positions. If our evaluation of the likelihood of the realization of benefits is inaccurate, we could incur additional income tax and interest expense that would adversely impact earnings, or we could receive tax benefits greater than anticipated which would positively impact earnings.

Impact of Recently Issued Accounting Pronouncements on Future Filings

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 is effective for the Company's reporting period beginning on January 1, 2018. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for the Company's reporting period beginning on January 1, 2016. As of September 30, 2015 and December 31, 2014, the Company did not have any share-based payment awards that included performance targets that could be achieved after the requisite service period. As such, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis." ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments:1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; 2) eliminate the presumption that a general partner should consolidate a limited partnership; 3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; 4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. All legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for the Company's annual reporting period beginning on January 1, 2016. We are currently evaluating the potential impact the new standard will have on our consolidated financial statements.

Financial Summary

Net income for the three months ended September 30, 2015 was $12.2 million, or $0.38 per diluted share, compared to $8.2 million, or $0.23 per diluted share for the three months ended September 30, 2014. Net income for the nine months ended September 30, 2015 was $34.9 million, or $1.06 per diluted share, compared to $27.2 million, or $0.71

per diluted share for the nine months ended September 30, 2014.

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The following table presents annualized returns on average assets, average shareholders’ equity, average tangible equity and basic and diluted earnings per share for the periods indicated. Average tangible equity is calculated as average shareholders’ equity less average intangible assets, which excludes mortgage servicing rights. Average intangible assets were $8.4 million and $9.1 million for the three and nine months ended September 30, 2015, respectively, compared to $11.1 million and $11.8 million for the comparable prior year periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Return on average assets	0.98 %	0.69 %	0.94 %	0.76 %
Return on average shareholders’ equity	9.91	5.78	8.98	6.01
Return on average tangible equity	10.08	5.90	9.14	6.13
Basic earnings per common share	$0.39	$0.23	$1.07	$0.72
Diluted earnings per common share	0.38	0.23	1.06	0.71

Material Trends

While there remains continued uncertainty in the global macroeconomic environment, the U.S. economy has continued to stabilize following the economic downturn caused by disruptions in the financial system beginning in 2007.

Despite this stabilization, underutilization of labor forces, low level of inflation as a result of declining commodity prices, weakness in business investment and manufacturing, and increased concerns over Greece and China have added to the uncertainty surrounding a sustained economic recovery. In addition, the stock market’s inability to sustain gains this year continues to hold back further progress.

The majority of our operations are concentrated in the state of Hawaii. As a result, our performance is significantly influenced by conditions in the banking industry, macroeconomic conditions and the real estate markets in Hawaii. A favorable business environment is generally characterized by expanding gross state product, low unemployment and rising personal income; while an unfavorable business environment is characterized by the reverse.

In its third quarter of 2015 report, the Hawaii Department of Business Economic Development & Tourism (“DBEDT”) projects Hawaii's economy will have higher growth rates for 2015 and 2016. DBEDT projects Hawaii's economy growth rate to be 1.9% and 2.3% for 2015 and 2016, respectively.

The Department of Labor and Industrial Relations reported that Hawaii’s seasonally adjusted annual unemployment rate improved to 3.4% in September 2015, compared to 4.2% in September 2014. In addition, Hawaii’s unemployment rate in September 2015 remained below the national seasonally adjusted unemployment rate of 5.1%. DBEDT projects Hawaii’s seasonally adjusted annual unemployment rate to be at 4.0% in 2015 while the national unemployment rate is projected to be at 5.4% in 2015. DBEDT projects Hawaii’s seasonally adjusted annual unemployment rate will further decrease to 3.7% in 2016.

While the labor market condition continues to improve, visitor arrivals and spending have stabilized. According to the Hawaii Tourism Authority (“HTA”), 5.8 million visitors visited the state in the eight months ended August 31, 2015. This was an increase of 4.1% from the number of visitor arrivals in the eight months ended August 31, 2014. Total spending by visitors, increased to $10.3 billion in the eight months ended August 31, 2015, an increase of $305.4 million, or 3.1%, from the eight months ended August 31, 2014. According to DBEDT, total visitor arrivals and visitor spending are expected to increase 4.3% and 3.8% in 2015, respectively, and increase by 1.6% and 3.5% in 2016, respectively.

Historically, real estate lending has been a primary focus for us, including construction, residential mortgage and commercial mortgage loans. As a result, we are dependent on the strength of Hawaii’s real estate market. According to the Honolulu Board of Realtors, Oahu unit sales volume increased by 4.9% for single-family homes and 5.1% for condominiums for the nine months ended September 30, 2015 compared to the same time period last year. The median sales price for single-family homes on Oahu for the nine months ended September 30, 2015 was $696,000, representing an increase of 4.0% from $669,500 in the same prior year period. The median sales price for condominiums on Oahu for the nine months ended September 30, 2015 was $355,000, representing an increase of 1.4% from $350,000 in the same prior year period. We believe the Hawaii real estate market will continue to show improvements during the remainder of 2015, however, there can be no assurance that this will occur.

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As we have seen in the past, our operating results are significantly impacted by: (i) the economy in Hawaii, and to a significantly lesser extent, California, and (ii) the composition of our loan portfolio. Loan demand, deposit growth, Provision, asset quality, noninterest income and noninterest expense are all affected by changes in economic conditions. If the residential and commercial real estate markets we have exposure to deteriorate as they did in 2008 through 2010, our results of operations would be negatively impacted.

Results of Operations

Net Interest Income

Net interest income, when expressed as a percentage of average interest earning assets, is referred to as "net interest margin." Interest income, which includes loan fees and resultant yield information, is expressed on a taxable equivalent basis using an assumed income tax rate of 35%. A comparison of net interest income on a taxable equivalent basis ("net interest income") for the three and nine months ended September 30, 2015 and 2014 is set forth below.

	Three Months Ended September 30,							
	2015				2014			
(dollars in thousands)	Average Balance	Average Yield/ Rate		Amount of Interest	Average Balance	Average Yield/ Rate		Amount of Interest
Assets								
Interest earning assets:								
Interest-bearing deposits in other banks	$10,277	0.23	%	6	$14,128	0.25	%	9
Taxable investment securities (1)	1,345,120	2.46		8,269	1,267,621	2.45		7,752
Tax-exempt investment securities (1)	175,340	3.54		1,551	178,488	3.45		1,541
Loans and leases, including loans held for sale (2)	3,070,384	3.91		30,148	2,848,983	3.96		28,364
Federal Home Loan Bank stock	10,113	4.20		11	44,888	0.10		12
Total interest earning assets	4,611,234	3.46		39,985	4,354,108	3.45		37,678
Nonearning assets	362,920				391,406			
Total assets	$4,974,154				$4,745,514			
Liabilities and Equity								
Interest-bearing liabilities:								
Interest-bearing demand deposits	$803,682	0.05	%	104	$786,078	0.05	%	96
Savings and money market deposits	1,277,480	0.07		230	1,225,969	0.07		225
Time deposits under $100,000	223,550	0.36		203	252,848	0.44		280
Time deposits $100,000 and over	842,362	0.17		365	797,410	0.17		349
Short-term borrowings	106,625	0.27		73	12,924	0.30		10
Long-term debt	92,785	2.83		662	92,787	2.77		647
Total interest-bearing liabilities	3,346,484	0.19		1,637	3,168,016	0.20		1,607
Noninterest-bearing deposits	1,094,969				942,361			
Other liabilities	40,018				66,019			
Total liabilities	4,481,471				4,176,396			
Shareholders' equity	492,683				569,118			
Non-controlling interests	—				—			
Total equity	492,683				569,118			
Total liabilities and equity	$4,974,154				$4,745,514			

Net interest income		38,348		36,071
Net interest margin	3.31	%	3.30	%

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(dollars in thousands)	Nine Months Ended September 30, 2015 Average Balance	Average Yield/ Rate		Amount of Interest	2014 Average Balance	Average Yield/ Rate		Amount of Interest
Assets								
Interest earning assets:								
Interest-bearing deposits in other banks	$15,133	0.24	%	$28	$12,832	0.25	%	$24
Taxable investment securities (1)	1,338,836	2.46		24,713	1,377,840	2.49		25,726
Tax-exempt investment securities (1)	176,335	3.51		4,640	178,369	3.45		4,609
Loans and leases, including loans held for sale (2)	3,002,785	3.93		88,322	2,759,928	4.03		83,287
Federal Home Loan Bank stock	28,532	0.19		40	45,473	0.10		35
Total interest earning assets	4,561,621	3.45		117,743	4,374,442	3.47		113,681
Nonearning assets	375,914				380,154			
Total assets	$4,937,535				$4,754,596			
Liabilities and Equity								
Interest-bearing liabilities:								
Interest-bearing demand deposits	$801,304	0.05	%	$298	$755,302	0.05	%	$277
Savings and money market deposits	1,261,534	0.07		678	1,221,100	0.07		672
Time deposits under $100,000	230,354	0.37		637	257,727	0.42		808
Time deposits $100,000 and over	841,876	0.16		1,028	819,744	0.17		1,072
Short-term borrowings	95,759	0.27		195	37,989	0.29		82
Long-term debt	92,785	2.81		1,949	92,792	2.77		1,923
Total interest-bearing liabilities	3,323,612	0.19		4,785	3,184,654	0.20		4,834
Noninterest-bearing deposits	1,053,398				913,879			
Other liabilities	41,616				52,848			
Total liabilities	4,418,626				4,151,381			
Shareholders’ equity	518,909				603,195			
Non-controlling interests	—				20			
Total equity	518,909				603,215			
Total liabilities and equity	$4,937,535				$4,754,596			
Net interest income				$112,958				$108,847
Net interest margin		3.31	%			3.32	%	

(1) At amortized cost.
(2) Includes nonaccrual loans.

Net interest income (expressed on a taxable-equivalent basis) was $38.3 million for the third quarter of 2015, representing an increase of 6.3% from $36.1 million in the third quarter of 2014. The increase was primarily attributable to a significant increase in average loans and leases balances as we continue to redeploy excess liquidity into higher yielding assets. Offsetting this increase was a decline in average yields earned on our loans and leases of 5 basis points (“bp”).

Average yields earned on our interest-earning assets during the third quarter of 2015 increased by 1 bp from the third quarter of 2014. Average rates paid on our interest-bearing liabilities declined by 1 bp in the third quarter of 2015 from the third quarter of 2014.

For the nine months ended September 30, 2015, net interest income (expressed on a taxable-equivalent basis) was $113.0 million, representing an increase of 3.8% from $108.8 million in the same prior year period. The increase in the nine months ended September 30, 2015 compared to the same prior year period was primarily attributable to a significant increase in

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average loans and leases balances. Offsetting this increase was a decrease in average taxable investment securities balances and declines in average yields earned on our loans and leases and taxable investment securities of 10 bp and 3 bp, respectively.

Average yields earned on our interest-earning assets during the nine months ended September 30, 2015 declined by 2 bp from the same prior year period. Average rates paid on our interest-bearing liabilities declined by 1 bp in the nine months ended September 30, 2015 from the same prior year period.

Interest Income

Taxable-equivalent interest income was $40.0 million for the third quarter of 2015, representing an increase of 6.1% from $37.7 million in the third quarter of 2014. The increase was primarily attributable to a significant increase in average loans and leases and taxable investment securities portfolios, partially offset by a decrease in average yields earned on our loans and leases. Average loans and leases and taxable investment securities increased by $221.4 million and $77.5 million, respectively, compared to the third quarter of 2014, accounting for approximately $2.2 million and $0.5 million of the current quarter’s increase in interest income, respectively. Average yields earned on loans and leases, however, decreased by 5 bp in the current quarter, lowering interest income by approximately $0.4 million.

For the nine months ended September 30, 2015, taxable-equivalent interest income was $117.7 million, representing an increase of 3.6% from $113.7 million in the same prior year period. The increase was primarily attributable to a significant increase in average loans and leases, partially offset by a decrease in average taxable investment securities and decreases in average yields earned on our loans and leases and taxable investment securities. Average loans and leases increased by $242.9 million compared to the same prior year period, accounting for approximately $7.3 million of the current period’s increase in interest income. Average taxable investment securities, however, decreased by $39.0 million, resulting in a decrease in interest income of $0.7 million. In addition, average yields earned on loans and leases and taxable investment securities, decreased by 10 bp and 3 bp, respectively, in the nine months ended September 30, 2015, lowering interest income by approximately $2.1 million and $0.3 million, respectively.

Interest Expense

Interest expense for the third quarter of 2015 was $1.6 million, representing an increase of 1.9% from the third quarter of 2014. The increase was primarily attributable a $93.7 million increase in average short-term borrowings, which increased interest expense by $0.1 million.

For the nine months ended September 30, 2015, interest expense was $4.8 million, representing a decrease of 1.0% from the same prior year period. The decrease was primarily attributable to the 1 bp and 5 bp declines in average rates paid on our time deposits greater than and less than $100,000, respectively, and a decrease in average time deposits less than $100,000 of $27.4 million. These decreases were partially offset by an increase in average short-term borrowings of $57.8 million.

Net Interest Margin

Our net interest margin was 3.31% for the third quarter of 2015, compared to 3.30% for the third quarter of 2014 and reflects the decline of 5 bp in average yields earned on loans and leases.

For the nine months ended September 30, 2015, our net interest margin was 3.31%, compared to 3.32% for the same prior year period and reflects declines of 10 bp and 3 bp in average yields earned on loans and leases and taxable investment securities, respectively.

The contraction in our net interest margin in the nine months ended September 30, 2015 from the same prior year period is attributable to the prevailing low interest rate environment. The historically low interest rate environment that we continue to operate in is the result of the target Fed Funds rate of 0% to 0.25% initially set by the Federal Reserve in the fourth quarter of 2008 and other economic policies implemented by the FRB, which continued through the nine months ended September 30, 2015. We continue to expect the target Fed Funds rate to remain low through the remainder of 2015, as longer-term inflation expectations have remained stable.

Provision for Loan and Lease Losses

Our Provision was a credit of $3.6 million during the third quarter of 2015, compared to a credit of $1.7 million in the third quarter of 2014. Our net recoveries were $3.4 million during the third quarter of 2015, compared to net recoveries of $1.0 million in the third quarter of 2014.

Our Provision was a credit of $13.7 million during the nine months ended September 30, 2015, compared to a credit of $1.0 million in the comparable prior year period. Our net recoveries were $6.3 million during the nine months ended September 30, 2015, compared to net recoveries of $0.1 million in the comparable prior year period.

The credit to the provision for loan and lease losses in the three and nine months ended September 30, 2015 was primarily attributable to improving trends in credit quality. Nonperforming assets as of September 30, 2015 decreased by $18.1 million and $28.0 million from June 30, 2015 and December 31, 2014 respectively. Additionally, we had net recoveries of $3.4 million and $6.3 million in the three and nine months ended September 30, 2015, respectively.

Other Operating Income

The following table sets forth components of other operating income for the periods indicated:

(dollars in thousands)	Three Months Ended September 30, 2015	September 30, 2014	Dollar Change	Percent Change
Service charges on deposit accounts	$1,947	$2,070	$(123)	-5.9%
Loan servicing fees	1,407	1,446	(39)	-2.7%
Other service charges and fees	2,803	2,886	(83)	-2.9%
Income from fiduciary activities	854	797	57	7.2%
Equity in earnings of unconsolidated subsidiaries	165	11	154	1,400.0%
Fees on foreign exchange	126	118	8	6.8%
Income from bank-owned life insurance	434	810	(376)	-46.4%
Loan placement fees	202	35	167	477.1%
Net gain on sales of residential loans	1,551	1,685	(134)	-8.0%
Net gain on sales of foreclosed assets	252	218	34	15.6%
Other:				
Income recovered on nonaccrual loans previously charged-off	262	494	(232)	-47.0%
Other recoveries	244	566	(322)	-56.9%
Net unrealized gains (losses) on loans-held-for-sale and interest rate locks	(646)	66	(712)	-1,078.8%
Commissions on sale of checks	86	83	3	3.6%
Other	142	178	(36)	-20.2%
Total other operating income	$9,829	$11,463	$(1,634)	-14.3%

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(dollars in thousands)	Nine Months Ended September 30, 2015	September 30, 2014	Dollar Change	Percent Change
Service charges on deposit accounts	$5,830	$6,052	$(222)	-3.7%
Loan servicing fees	4,257	4,338	(81)	-1.9%
Other service charges and fees	8,689	8,912	(223)	-2.5%
Income from fiduciary activities	2,518	2,687	(169)	-6.3%
Equity in earnings of unconsolidated subsidiaries	490	422	68	16.1%
Fees on foreign exchange	352	351	1	0.3%
Investment securities gains (losses)	(1,866)	240	(2,106)	-877.5%
Income from bank-owned life insurance	1,569	2,246	(677)	-30.1%
Loan placement fees	574	356	218	61.2%
Net gain on sales of residential loans	4,775	4,151	624	15.0%
Net gain on sales of foreclosed assets	379	962	(583)	-60.6%
Other:				
Income recovered on nonaccrual loans previously charged-off	690	1,133	(443)	-39.1%
Other recoveries	533	605	(72)	-11.9%
Net unrealized gains (losses) on loans-held-for-sale and interest rate locks	(378)	419	(797)	-190.2%
Commissions on sale of checks	246	253	(7)	-2.8%
Other	485	484	1	0.2%
Total other operating income	$29,143	$33,611	$(4,468)	-13.3%

Total other operating income of $9.8 million for the third quarter of 2015 decreased by $1.6 million, or 14.3%, from the third quarter of 2014. The decrease from the third quarter of 2014 was primarily due to net unrealized losses on loans held for sale and interest rate locks of $0.6 million recorded in the third quarter of 2015 compared to net unrealized gains of $0.1 million recorded in the third quarter of 2014. In addition, we recorded lower income from bank-owned life insurance of $0.4 million, lower other recoveries of $0.3 million, and lower income recovered on nonaccrual loans previously charged-off of $0.2 million.

For the nine months ended September 30, 2015, total other operating income of $29.1 million decreased by $4.5 million, or 13.3%, from the comparable prior year period. The decrease from the comparable prior year period was primarily due to investment securities losses of $1.9 million recorded in the nine months ended September 30, 2015 compared to investment securities gains of $0.2 million recorded in the comparable prior year period. In addition, we recorded net unrealized losses on loans held for sale and interest rate locks of $0.4 million in the nine months ended September 30, 2015 compared to net unrealized gains of $0.4 million recorded in the comparable prior year period. We also recorded lower income from bank-owned life insurance of $0.7 million, lower net gains on sale of foreclosed assets of $0.6 million, and lower income recovered on nonaccrual loans previously charged-off of $0.4 million. These decreases were partially offset by higher net gains on sales of residential mortgage loans of $0.6 million.

Other Operating Expense

The following table sets forth components of other operating expense for the periods indicated:

(dollars in thousands)	Three Months Ended September 30, 2015	September 30, 2014	Dollar Change	Percent Change
Salaries and employee benefits	$17,193	$16,552	$641	3.9 %
Net occupancy	3,547	4,051	(504)	-12.4 %
Equipment	775	953	(178)	-18.7 %
Amortization of other intangible assets	1,683	1,328	355	26.7 %
Communication expense	895	925	(30)	-3.2 %
Legal and professional services	1,808	1,786	22	1.2 %
Computer software expense	2,286	1,659	627	37.8 %
Advertising expense	502	673	(171)	-25.4 %
Foreclosed asset expense	3	1,355	(1,352)	-99.8 %
Other:				
Charitable contributions	179	199	(20)	-10.1 %
FDIC insurance assessment	685	716	(31)	-4.3 %
Miscellaneous loan expenses	314	271	43	15.9 %
ATM and debit card expenses	365	286	79	27.6 %
Amortization of investments in low-income housing tax credit partnerships	258	307	(49)	-16.0 %
Armored car expenses	213	209	4	1.9 %
Entertainment and promotions	191	200	(9)	-4.5 %
Stationery and supplies	381	240	141	58.8 %
Directors' fees and expenses	156	112	44	39.3 %
Provision (credit) for residential mortgage loan repurchase losses	(883)	234	(1,117)	-477.4 %
Increase to the reserve for unfunded commitments	255	296	(41)	-13.9 %
Other	1,369	2,894	(1,525)	-52.7 %
Total other operating expense	$32,175	$35,246	$(3,071)	-8.7 %

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(dollars in thousands)	Nine Months Ended September 30, 2015	September 30, 2014	Dollar Change	Percent Change
Salaries and employee benefits	$49,534	$50,536	$(1,002)	-2.0%
Net occupancy	10,451	11,375	(924)	-8.1%
Equipment	2,617	2,694	(77)	-2.9%
Amortization of other intangible assets	5,347	3,886	1,461	37.6%
Communication expense	2,661	2,693	(32)	-1.2%
Legal and professional services	5,669	5,826	(157)	-2.7%
Computer software expense	6,764	4,592	2,172	47.3%
Advertising expense	1,586	2,037	(451)	-22.1%
Foreclosed asset expense	332	1,443	(1,111)	-77.0%
Other:				
Charitable contributions	2,456	462	1,994	431.6%
FDIC insurance assessment	2,084	2,118	(34)	-1.6%
Miscellaneous loan expenses	1,023	764	259	33.9%
ATM and debit card expenses	1,131	1,199	(68)	-5.7%
Amortization of investments in low-income housing tax credit partnerships	820	1,065	(245)	-23.0%
Armored car expenses	642	649	(7)	-1.1%
Entertainment and promotions	654	632	22	3.5%
Stationery and supplies	796	779	17	2.2%
Directors’ fees and expenses	561	682	(121)	-17.7%
Provision (credit) for residential mortgage loan repurchase losses	(756)	542	(1,298)	-239.5%
Decrease to the reserve for unfunded commitments	(48)	(373)	325	-87.1%
Other	4,327	6,463	(2,136)	-33.0%
Total other operating expense	$98,651	$100,064	$(1,413)	-1.4%

Total other operating expense for the third quarter of 2015 was $32.2 million and decreased by $3.1 million, or 8.7%, from $35.2 million in the third quarter of 2014. Other operating expenses in the third quarter of 2014 included $1.3 million in costs related to the consolidation and relocation of our two Waikiki branches (included in other). The decrease from the third quarter of 2014 was also attributable to lower foreclosed asset expenses of $1.4 million and a credit to the reserve for residential mortgage loan repurchase losses of $0.9 million recorded in the third quarter of 2015 compared to an increase to the reserve of $0.2 million recorded in the third quarter of 2014.

For the nine months ended September 30, 2015, total other operating expense was $98.7 million and decreased by $1.4 million, or 1.4%, from $100.1 million in the comparable prior year period. The decrease from the comparable prior year period was primarily attributable to the aforementioned costs related to the consolidation and relocation of our Waikiki branches recorded in the third quarter of 2014 (included in other), lower foreclosed asset expenses of $1.1 million, and lower salaries and employee benefits of $1.0 million. In addition, we recorded a credit to the reserve for residential mortgage loan repurchase losses of $0.8 million in the nine months ended September 30, 2015 compared to an increase to the reserve of $0.5 million recorded in the comparable prior year period. These decreases were partially offset by higher computer software expense of $2.2 million, higher charitable contributions of $2.0 million, and higher amortization of other intangible assets of $1.5 million.

The higher charitable contributions in the nine months ended September 30, 2015 was primarily attributable to a $2.0 million contribution to the Central Pacific Bank Foundation in the second quarter of 2015. The lower salaries and employee benefits in the nine months ended September 30, 2015 reflects a $2.4 million one-time reversal of an accrual for a former executive officer’s retirement benefits recorded in the second quarter of 2015, offset by higher incentive compensation plan expenses of $1.7 million.

Income Taxes

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In the third quarter of 2015, the Company recorded income tax expense of $6.9 million compared to $5.2 million in the third quarter of 2014. The effective tax rate for the third quarter of 2015 was 36.11% compared to 38.91% in the third quarter of 2014.

Income tax expense in the third quarter of 2014 included a 2013 income tax return true-up adjustment of $0.9 million, which primarily related to a premium paid on the repurchase of preferred stock of our two real estate investment trust subsidiaries in the third quarter of 2013.

For the nine months ended September 30, 2015, the Company recorded income tax expense of $20.6 million compared to $14.6 million in the same prior year period. The effective tax rate for the nine months ended September 30, 2015 was 37.10% compared to 34.99% in the same prior year period.

Income tax expense and the effective tax rate increased in the nine months ended September 30, 2015 due to an increase in operating income. Additionally, income tax expense and the effective tax rate in the nine months ended September 30, 2015 was impacted by $0.6 million in additional state income tax expense recorded in the second quarter of 2015 resulting from the reduction in deferred tax liabilities related to the redemption of Federal Home Loan Bank of Des Moines membership stock in June 2015.

The remaining valuation allowance on our net DTA totaled $2.8 million at September 30, 2015 and December 31, 2014. Net of this valuation allowance, the Company’s net DTA totaled $84.2 million at September 30, 2015 compared to a net DTA of $104.4 million as of December 31, 2014, and is included in other assets on our consolidated balance sheets.

Financial Condition

Total assets at September 30, 2015 of $5.02 billion increased by $168.8 million from $4.85 billion at December 31, 2014.

Investment Securities

Investment securities of $1.53 billion at September 30, 2015 increased by $59.8 million, or 4.1%, from December 31, 2014. In the second quarter of 2015, $119.4 million in available-for-sale securities were sold as part of an investment portfolio repositioning designed to improve profitability. Investment securities sold in the second quarter had a weighted average life of 4.4 years, average yield of 1.35% and resulted in a loss of $1.9 million. Proceeds from the sale were immediately reinvested back into the investment portfolio, purchasing $120.6 million in mortgage-backed securities with a weighted average life of 7.6 years and an average yield of 2.71%.

Loans and Leases

Loans and leases, net of deferred income/costs, of $3.10 billion at September 30, 2015 increased by $169.3 million, or 5.8%, from December 31, 2014. The increase was due to an increase in the residential mortgage, commercial, financial and agricultural, commercial mortgage, and consumer loan portfolios of $103.0 million, $42.8 million, $33.7 million, and $31.0 million, respectively, offset by a decrease in the construction loan and leases portfolios of $39.2 million and $2.0 million, respectively. The net increase in the portfolio is partially offset by loan charge-offs totaling $9.1 million, as well as the transfer of two portfolio loans to a single borrower, with a carrying value of $6.6 million, to the held-for-sale category. In addition, we foreclosed on seven portfolio loans with a carrying value of $2.1 million.

Explanation of Responses:

Nonperforming Assets, Accruing Loans Delinquent for 90 Days or More, Restructured Loans Still Accruing Interest

The following table sets forth nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest as of the dates indicated.

(dollars in thousands)	September 30, 2015		December 31, 2014	
Nonperforming Assets				
Nonaccrual loans (including loans held for sale):				
Commercial, financial and agricultural	$3,056		$13,007	
Real estate:				
Construction	—		310	
Mortgage - residential	6,301		13,048	
Mortgage - commercial	2,731		12,722	
Total nonaccrual loans	12,088		39,087	
Other real estate:				
Real estate:				
Construction	—		747	
Mortgage - residential	1,913		2,201	
Mortgage - commercial	—		—	
Other real estate	1,913		2,948	
Total nonperforming assets	14,001		42,035	
Accruing Loans Delinquent for 90 Days or More				
Consumer	130		77	
Total accruing loans delinquent for 90 days or more	130		77	
Restructured Loans Still Accruing Interest				
Commercial, financial and agricultural	327		361	
Real estate:				
Construction	841		892	
Mortgage - residential	17,592		17,845	
Mortgage - commercial	2,253		10,405	
Total restructured loans still accruing interest	21,013		29,503	
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	$35,144		$71,615	
Ratio of nonaccrual loans to total loans and leases	0.39	%	1.33	%
Ratio of nonperforming assets to total loans and leases and other real estate	0.45	%	1.43	%
Ratio of nonperforming assets and accruing loans delinquent for 90 days or more to total loans and leases and other real estate	0.46	%	1.43	%
Ratio of nonperforming assets, accruing loans delinquent for 90 days or more, and restructured loans still accruing interest to total loans and leases and other real estate	1.13	%	2.44	%

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The following table sets forth activity in nonperforming assets as of the date indicated.

Year-to-Date Changes in Nonperforming Assets:	
(dollars in thousands)	
Balance at December 31, 2014	$42,035
Additions	8,871
Reductions:	
Payments	(9,125)
Return to accrual status	(11,270)
Sales of nonperforming assets	(13,236)
Charge-offs and/or valuation adjustments	(3,274)
Total reductions	(36,905)
Balance at September 30, 2015	$14,001

Nonperforming assets, which includes nonaccrual loans and leases and other real estate, totaled $14.0 million at September 30, 2015, compared to $42.0 million at December 31, 2014. There were no nonperforming loans classified as held for sale at September 30, 2015 and December 31, 2014. The decrease in nonperforming assets from December 31, 2014 was attributable to $13.2 million in sales of nonperforming assets, $11.3 million in loans restored to accrual status, $9.1 million in repayments, and $3.3 million in net charge-offs of nonaccrual loans and valuation adjustments of other real estate, partially offset by $8.9 million in gross additions.

Net changes to nonperforming assets by category included net decreases in U.S. Mainland commercial, financial and agricultural assets of $10.1 million, Hawaii commercial mortgage assets of $8.3 million, Hawaii residential mortgage assets of $7.0 million, U.S. Mainland commercial mortgage assets of $1.6 million, and Hawaii construction assets of $1.1 million. These decreases were offset by a net increase in Hawaii commercial, financial and agricultural assets of $0.2 million.

Troubled debt restructurings (“TDRs”) included in nonperforming assets at September 30, 2015 consisted of 24 Hawaii residential mortgage loans with a combined principal balance of $3.7 million and two Hawaii commercial loans with a combined principal balance of $0.8 million.

Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers’ financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were $21.0 million of TDRs still accruing interest at September 30, 2015, none of which were more than 90 days delinquent. At December 31, 2014, there were $29.5 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

Allowance for Loan and Lease Losses

The following table sets forth certain information with respect to the Allowance as of the dates and for the periods indicated:

(dollars in thousands)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Allowance for Loan and Lease Losses				
Balance at beginning of period	$66,924	$83,599	$74,040	$83,820
Provision (credit) for loan and lease losses	(3,647)	(1,722)	(13,713)	(1,043)
Charge-offs:				
Commercial, financial and agricultural	170	471	5,104	2,142
Real estate:				
Construction	—	—	—	—
Mortgage-residential	46	—	110	139
Mortgage-commercial	—	—	—	1,041
Consumer	874	928	3,929	2,063
Leases	—	—	—	8
Total charge-offs	1,090	1,399	9,143	5,393
Recoveries:				
Commercial, financial and agricultural	504	789	4,377	1,973
Real estate:				
Construction	283	1,100	870	1,844
Mortgage-residential	196	244	2,081	867
Mortgage-commercial	3,130	14	6,705	40
Consumer	317	212	1,400	724
Leases	27	1	27	6
Total recoveries	4,457	2,360	15,460	5,454
Net recoveries	(3,367)	(961)	(6,317)	(61)
Balance at end of period	$66,644	$82,838	$66,644	$82,838
Annualized ratio of net recoveries to average loans and leases	(0.44)%	(0.13)%	(0.28)%	—%

Our Allowance at September 30, 2015 totaled $66.6 million compared to $74.0 million at December 31, 2014. The decrease in our Allowance during the nine months ended September 30, 2015, was a direct result of a credit to the Provision of $13.7 million, offset by $6.3 million in net loan recoveries.

Our Allowance as a percentage of total loans and leases decreased from 2.53% at December 31, 2014 to 2.15% at September 30, 2015. Our Allowance as a percentage of nonperforming assets increased from 176.14% at December 31, 2014 to 475.99% at September 30, 2015.

In accordance with GAAP, loans held for sale and other real estate assets are not included in our assessment of the Allowance.

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Federal Home Loan Bank Stock

The bank was a member of the Federal Home Loan Bank of Seattle until its merger with the Federal Home Loan Bank of Des Moines on June 1, 2015. We are now a member of the Federal Home Loan Bank of Des Moines (the "FHLB"). FHLB membership stock of $12.0 million at September 30, 2015 decreased by $31.9 million, or 72.58%, from the FHLB membership stock balance at December 31, 2014. During the three and nine months ended September 30, 2015, we received net proceeds of $0.1 million and $31.9 million, respectively, from redemptions of excess FHLB membership stock at par value of $100 per share.

Deposits

Total deposits of $4.23 billion at September 30, 2015 reflected an increase of $120.2 million, or 2.9%, from total deposits of $4.11 billion at December 31, 2014. The increase was primarily attributable to net increases in noninterest-bearing demand deposits, savings and money market deposits, and time deposits of $78.6 million, $40.9 million, and $3.0 million, respectively, offset by a net decrease in interest-bearing demand deposits of $2.3 million.

Core deposits, which we define as demand deposits, savings and money market deposits, and time deposits less than $100,000, totaled $3.40 billion at September 30, 2015 and increased by $95.2 million, or 2.9%, from December 31, 2014.

Capital Resources

In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with an analysis of the size and quality of our assets, the level of risk and regulatory capital requirements. As part of this ongoing assessment, the Board of Directors reviews our capital position on an ongoing basis to ensure it is adequate, including, but not limited to, need for raising additional capital or returning capital to our shareholders, including the ability to declare cash dividends or repurchase our securities.

Common Stock

Shareholders' equity totaled $503.3 million at September 30, 2015, compared to $568.0 million at December 31, 2014. The decrease in total shareholders' equity was attributable to the repurchase of 4,122,881 shares of common stock, at a cost of $93.3 million, excluding fees and expenses, under our repurchase program, cash dividends paid of $11.7 million, and other comprehensive income of $3.9 million, partially offset by net income of $34.9 million in the nine months ended September 30, 2015. During the nine months ended September 30, 2015, we repurchased approximately 11.7% of our common stock outstanding as of December 31, 2014.

Holding Company Capital Resources

As a Hawaii state-chartered bank, the bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law ("Statutory Retained Earnings"), which differs from GAAP retained earnings. As of September 30, 2015, the bank had Statutory Retained Earnings of $61.7 million. On October 28, 2015, the Company's Board of Directors declared a cash dividend of $0.14 per share, a 16.7% increase from the $0.12 per share in the third quarter of 2015, on the Company's outstanding common stock. In addition, the Board of Directors approved a special cash dividend of $0.32 per common share.
The quarterly cash dividend and special cash dividend are payable on December 15, 2015 to shareholders of record at the close of business on November 30, 2015.

Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. Our ability to pay cash dividends to our shareholders is subject to restrictions under federal and Hawaii law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to, including covenants set forth in our subordinated debentures.

On February 21, 2014, we announced a tender offer to purchase for cash up to $68.8 million in value of shares of our common stock at a price not greater than $21.00 nor less than $18.50 per share (the “Tender Offer”).

The Tender Offer expired on March 21, 2014 and 3,369,850 shares of our common stock were properly tendered and not withdrawn at or below the purchase price of $20.20 per share (“Purchase Price”). In addition, 167,572 shares were tendered through notice of guaranteed delivery at or below the Purchase Price. Based on these results, we accepted for purchase 3,405,888 shares, at the Purchase Price for a total cost of $68.8 million, excluding fees and expenses related to the Tender Offer. The Tender Offer closed on March 28, 2014.

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Due to the oversubscription of the Tender Offer, we accepted for purchase on a pro rata basis approximately 96.6% of the shares properly tendered and not properly withdrawn at or below the Purchase Price by each tendering shareholder, except for tenders of odd lots, which were accepted in full, and except for certain conditional tenders automatically regarded as withdrawn pursuant to the terms of the Tender Offer.

On February 20, 2014, we also entered into repurchase agreements (the “Repurchase Agreements”) with each of Carlyle Financial Services Harbor, L.P. (“Carlyle”) and ACMO-CPF, L.L.C. (“Anchorage” and together with Carlyle, the “Lead Investors”), each of whom was the owner of 9,463,095 shares (representing 22.5% of the outstanding shares or 44.9% in the aggregate at that time) of our common stock, pursuant to which we agreed to purchase up to $28.1 million of shares of common stock from each of the Lead Investors at the Purchase Price of the Tender Offer (the “Private Repurchases”) (or an aggregate of $56.2 million of shares). Conditions to the Private Repurchases were satisfied and we purchased 1,391,089 shares from each of Carlyle and Anchorage at the Purchase Price for a total cost of $56.2 million, excluding fees and expenses related to the Private Repurchases. The Private Repurchases closed on April 7, 2014, the eleventh business day following the expiration of the Tender Offer.

The completion of the Tender Offer and the Private Repurchases resulted in the aggregate repurchase by us of 6,188,066 shares totaling $125 million, or 14.7% of our issued and outstanding shares of our common stock prior to the completion of the Tender Offer and the Private Repurchases. Upon completion of the Tender Offer and Private Repurchases, we had approximately 35.9 million shares outstanding.

On March 26, 2015, the Company, the Selling Shareholders, and the Underwriter entered into the March 2015 Underwriting Agreement pursuant to which the Selling Shareholders agreed to each sell 3,802,694 shares for a total of 7,605,388 shares of CPF common stock, no par value per share, to the Underwriter at a price of $23.01 per common share for a total of approximately $175 million. In connection with the March 2015 Underwriting Agreement, the Company repurchased 3,259,452 shares of its common stock from the Underwriter at a price of $23.01 per share for an aggregate cost of approximately $75 million. On April 1, 2015, the transactions were consummated. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were sold by the Company. The Company incurred $0.4 million in costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders. In addition, the Company incurred $0.2 million in costs recorded in equity related to the repurchase of its common stock from the Underwriter.

On June 4, 2015, the Company, the Selling Shareholders, and the Underwriter entered into another secondary offering underwriting agreement (the “June 2015 Underwriting Agreement”) pursuant to which the Selling Shareholders agreed to each sell 1,500,000 shares for a total of 3,000,000 shares of CPF common stock, no par value per share, to the Underwriter at a price of $22.15 per common share for a total of approximately $66.5 million. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were sold by the Company. In the second quarter of 2015, the Company accrued $0.3 million of costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders.

On August 3, 2015, the Company, the Selling Shareholders, and the Underwriter and UBS Investment Bank ("UBS") entered into a final underwriting agreement (the "August 2015 Underwriting Agreement") pursuant to which the Selling Shareholders sold their aggregate remaining interest in the Company of 5,538,624 shares of CPF common stock to the Underwriter and UBS at a price of $22.11 per common share for a total of approximately $122.5 million. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were sold by the Company.

On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company’s outstanding common stock (the “CPF Repurchase Plan”). Repurchases under the CPF Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions.

In January 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by $25.0 million. In March 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by an additional $75.0 million in connection with the March 2015 Underwriting Agreement. Since the second quarter of 2014, we have repurchased 4,980,435 shares of common stock at an aggregate cost of $109.8 million, excluding fees and expenses, under this program. A total of $20.2 million remained available for repurchase under the CPF Repurchase Plan at September 30, 2015. However, in an effort to further protect the Company from experiencing an ownership change, the Company does not intend to repurchase any additional shares under the CPF Repurchase Plan during the remainder of 2015. We currently expect to reestablish our share repurchase program in the first quarter of 2016.

As of September 30, 2015, on a stand-alone basis, CPF had an available cash balance of approximately $16.2 million in order to meet its ongoing obligations.

Trust Preferred Securities

We have four statutory trusts, CPB Capital Trust II, CPB Statutory Trust III, CPB Capital Trust IV and CPB Statutory Trust V, which issued a total of $90.0 million in trust preferred securities. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust's obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

Regulatory Capital Ratios

General capital adequacy regulations adopted by the FRB and FDIC require an institution to maintain minimum leverage, Tier 1 and total risk-based capital ratios. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. For a further discussion of the effect of forthcoming changes in required regulatory capital ratios, see the discussion in our Form 10-K "Business — Supervision and Regulation."

In April 2014 the FRB adopted as final its Basel III interim final rule ("Basel III") intended to improve both the quality and quantity of capital for institutions supervised by the FDIC. Basel III implemented a revised definition of regulatory capital, added a new common equity tier 1 (CET1) risk-based capital requirement, increased the minimum tier 1 capital requirement and amended the methodologies for determining risk-weighted assets. Basel III became effective for the Company on January 1, 2015. A new capital conservation buffer comprised of CET1 will be phased-in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase when fully phased-in up to 2.5% in 2019.

The Company's and the bank's leverage capital, tier 1 risk-based capital, total risk-based capital, and CET1 risk-based capital ratios as of September 30, 2015 were above the levels required for a "well capitalized" regulatory designation.

The following table sets forth the Company's and the bank's capital ratios, as well as the minimum capital adequacy requirements applicable to all financial institutions as of the dates indicated.

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company						
At September 30, 2015:						
Leverage capital	$533,984	10.9 %	$196,503	4.0 %	$245,629	5.0 %
Tier 1 risk-based capital	533,984	15.0	213,601	6.0	284,801	8.0
Total risk-based capital	579,182	16.3	284,801	8.0	356,002	10.0
CET1 risk-based capital	474,169	13.3	160,201	4.5	231,401	6.5
At December 31, 2014:						
Leverage capital	$562,063	12.0 %	$186,922	4.0 %	$233,652	5.0 %
Tier 1 risk-based capital	562,063	17.0	132,475	4.0	198,712	6.0
Total risk-based capital	603,939	18.2	264,949	8.0	331,187	10.0
Central Pacific Bank						
At September 30, 2015:						
Leverage capital	$515,625	10.5 %	$196,201	4.0 %	$245,252	5.0 %
Tier 1 risk-based capital	515,625	14.5	213,205	6.0	284,273	8.0
Total risk-based capital	560,569	15.8	284,273	8.0	355,342	10.0
CET1 risk-based capital	515,625	14.5	159,904	4.5	230,972	6.5
At December 31, 2014:						
Leverage capital	$540,276	11.6 %	$186,828	4.0 %	$233,535	5.0 %
Tier 1 risk-based capital	540,276	16.3	132,376	4.0	198,564	6.0
Total risk-based capital	582,068	17.6	264,752	8.0	330,940	10.0

Liquidity and Borrowing Arrangements

Our objective in managing liquidity is to maintain a balance between sources and uses of funds in order to economically meet the cash requirements of customers for loans and deposit withdrawals and participate in lending and investment opportunities as they arise. We monitor our liquidity position in relation to changes in loan and deposit balances on a daily basis to ensure maximum utilization, maintenance of an adequate level of readily marketable assets and access to short-term funding sources.

Core deposits have historically provided us with a sizeable source of relatively stable and low cost funds, but are subject to competitive pressure in our market. In addition to core deposit funding, we also have access to a variety of other short-term and long-term funding sources, which include proceeds from maturities of our investment securities, as well as secondary funding sources such as the FHLB, secured repurchase agreements and the Federal Reserve discount window, available to meet our liquidity needs. While we historically have had access to these other funding sources, access to these sources may not be guaranteed and can be restricted in the future as a result of market conditions or the Company's and bank's financial position.

The bank is a member of and maintained a $1.2 billion line of credit with the FHLB as of September 30, 2015. Short-term borrowings under this arrangement totaled $155.0 million at September 30, 2015, compared to $38.0 million at December 31, 2014, respectively. There were no long-term borrowings under this arrangement at September 30, 2015 and December 31, 2014. FHLB advances outstanding at September 30, 2015 were secured by unencumbered investment securities with a fair value of $0.7 million and certain real estate loans with a carrying value of $1.6 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. At September 30, 2015, $1.0 billion was undrawn under this arrangement.

At September 30, 2015 and December 31, 2014, our bank had additional unused borrowings available at the Federal Reserve discount window of $44.2 million and $33.3 million, respectively. As of September 30, 2015 and December 31, 2014, certain commercial and commercial real estate loans with a carrying value totaling $91.8 million and $72.9 million, respectively, were pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

Our ability to maintain adequate levels of liquidity is dependent on our ability to continue to maintain our strong risk profile and capital base. Our liquidity may also be negatively impacted by weakness in the financial markets and industry-wide reductions in liquidity.

Contractual Obligations

Information regarding our contractual obligations is provided in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes in our contractual obligations since December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices such as interest rates, foreign currency rates, commodity prices and equity prices. Our primary market risk exposure is interest rate risk that occurs when rate-sensitive assets and rate-sensitive liabilities mature or reprice during different periods or in differing amounts. Asset/liability management attempts to coordinate our rate-sensitive assets and rate-sensitive liabilities to meet our financial objectives. The Asset/Liability Committee (“ALCO”) monitors interest rate risk through the use of interest rate sensitivity gap, net interest income and market value of portfolio equity simulation, and rate shock analyses. Adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities.

The primary analytical tool we use to measure and manage our interest rate risk is a simulation model that projects changes in net interest income (“NII”) as market interest rates change. Our ALCO policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The results of the model indicate that the mix of rate-sensitive assets and liabilities at September 30, 2015 would not result in a fluctuation of NII that would exceed the established policy limits.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), the Company’s management, including the Chief Executive Officer and Principal Financial and Accounting Officer, conducted an evaluation of the effectiveness and design of the Company's disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial and Accounting Officer concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

As of the end of the period covered by this report, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter to which this report relates that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on February 27, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

In the three months ended September 30, 2015, 172,100 shares of common stock, at an aggregate cost of $4.0 million, excluding fees and expenses, were repurchased under this program as described in the table below. A total of $20.2 million remained available for repurchase under the program at September 30, 2015. However, in an effort to further protect the Company from experiencing an ownership change, the Company does not intend to repurchase any additional shares under the CPF Repurchase Plan during the remainder of 2015. We currently expect to reestablish our share repurchase program in the first quarter of 2016.

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program(1)
July 1-31, 2015	172,100	$23.29	172,100	$20,223,431
August 1-31, 2015	—	—	—	20,223,431
September 1-30, 2015	—	—	—	20,223,431
Total	172,100	$23.29	172,100	$20,223,431

(1) Our Board of Directors (the "BOD") first authorized the repurchase and retirement of up to $30 million of the Company's outstanding common stock (the "CPF Repurchase Plan") on May 20, 2014. On January 28, 2015, the BOD increased the authorization under the CPF Repurchase Plan by $25 million. On March 24, 2015, the BOD increased the authorization by an additional $75 million. As of September 30, 2015, $20.2 million remained of the total $130 million total repurchase amount authorized by the BOD under the CPF Repurchase Plan. The plan has no set expiration or termination date.

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Item 6. Exhibits

Exhibit No.	Document
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CENTRAL PACIFIC FINANCIAL CORP.
(Registrant)

Date: November 3, 2015	/s/ A. Catherine Ngo A. Catherine Ngo President and Chief Executive Officer
Date: November 3, 2015	/s/ David S. Morimoto David S. Morimoto Executive Vice President and Chief Financial Officer

Central Pacific Financial Corp.
Exhibit Index

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