

PACIFIC PREMIER BANCORP INC  
Form 10-Q  
November 14, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2007

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**

*(State or other jurisdiction of incorporation or organization)*

**33-0743196**

*(I.R.S Employer Identification No.)*

**1600 SUNFLOWER AVENUE, 2<sup>ND</sup> FLOOR, COSTA MESA, CALIFORNIA 92626  
(714) 431-4000**

*(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

No

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

Large accelerated filer [ ]  
]

Accelerated filer [ ]  
Non-accelerated filer [X]

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,163,488 shares of common stock par value \$0.01 per share, were outstanding as of November 14, 2007.

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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES  
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PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)

|  | September<br>30,<br>2007<br>(Unaudited) | December<br>31,<br>2006 |
|--|---|-------------------------|
| <b>ASSETS</b>  |   |                         |
| Cash and due from banks  | \$ 6,848                                | \$ 7,028                |
| Federal funds sold   | 11                                      | 10,012                  |
| Cash and cash equivalents  | 6,859                                   | 17,040                  |
| Investment securities available for sale   | 57,060                                  | 61,816                  |
| Investment securities held to maturity:  |   |                         |
| Federal Reserve and Federal Home Loan Bank Stock, at cost                        | 16,602                                  | 15,328                  |
| Federal Home Loan Bank note  | 39,980                                  | -                       |
| Loans:   |   |                         |
| Loans held for sale, net   | 2,151                                   | 795                     |
| Loans held for investment, net of allowance of \$4,447 (2007) and \$3,543 (2006) | 623,953                                 | 604,304                 |
| Accrued interest receivable  | 4,152                                   | 3,764                   |
| Other real estate owned  | 20                                      | 138                     |
| Premises and equipment   | 9,646                                   | 8,622                   |
| Current income taxes   | 130                                     | 130                     |
| Deferred income taxes  | 6,885                                   | 6,992                   |
| Bank owned life insurance  | 10,738                                  | 10,344                  |
| Other assets   | 924                                     | 1,601                   |
| Total Assets   | \$ 779,100                              | \$ 730,874              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                      |   |                         |
| <b>LIABILITIES</b>   |   |                         |
| Deposit accounts   |   |                         |
| Noninterest bearing  | \$ 29,657                               | \$ 33,607               |
| Interest bearing:  |   |                         |

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|  |                   |                   |
|--|-------------------|-------------------|
| Transaction accounts                       | 60,661            | 63,154            |
| Retail certificates of deposit             | 255,530           | 211,714           |
| Wholesale/brokered certificates of deposit | 44,203            | 30,974            |
| <b>Total Deposits</b>                      | <b>390,051</b>    | <b>339,449</b>    |
| Borrowings                                 | 311,285           | 316,491           |
| Subordinated debentures                    | 10,310            | 10,310            |
| Accrued expenses and other liabilities     | 7,541             | 6,586             |
| <b>Total Liabilities</b>                   | <b>\$ 719,187</b> | <b>\$ 672,836</b> |

|                                      |   |   |
|--------------------------------------|---|---|
| <b>COMMITMENTS AND CONTINGENCIES</b> | - | - |
|--------------------------------------|---|---|

**STOCKHOLDERS' EQUITY**

|  |                  |                  |
|--|------------------|------------------|
| Common stock, \$.01 par value; 15,000,000 shares authorized; 5,163,488 (2007) and 5,263,488 (2006) shares issued and outstanding | \$ 52            | \$ 54            |
| Additional paid-in capital   | 66,371           | 67,306           |
| Accumulated deficit  | (5,674)          | (8,631)          |
| Accumulated other comprehensive loss, net of tax of \$584 (2007) and \$483 (2006)  | (836)            | (691)            |
| <b>Total Stockholders' Equity</b>  | <b>\$ 59,913</b> | <b>\$ 58,038</b> |

|   |                   |                   |
|---|-------------------|-------------------|
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <b>\$ 779,100</b> | <b>\$ 730,874</b> |
|---|-------------------|-------------------|

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
(Dollars in thousands, except per share data)  
(UNAUDITED)

|                               | For the Three Months Ended |                    | For the Nine Months Ended |                    |
|-------------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                               | September 30, 2007         | September 30, 2006 | September 30, 2007        | September 30, 2006 |
| <b>INTEREST INCOME:</b>       |                            |                    |                           |                    |
| Loans                         | \$ 11,758                  | \$ 10,658          | \$ 33,890                 | \$ 30,504          |
| Other interest-earning assets | 1,050                      | 678                | 3,125                     | 1,941              |
| <b>Total interest income</b>  | <b>12,808</b>              | <b>11,336</b>      | <b>37,015</b>             | <b>32,445</b>      |

**INTEREST EXPENSE:**

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|  |              |              |               |               |
|--|--------------|--------------|---------------|---------------|
| Interest on transaction accounts                           | 452          | 430          | 1,338         | 1,191         |
| Interest on certificates of deposit                        | 3,703        | 2,581        | 10,020        | 7,297         |
| Total deposit interest expense                             | 4,155        | 3,011        | 11,358        | 8,488         |
| Other borrowings   | 3,730        | 4,028        | 11,324        | 10,429        |
| Subordinated debentures                                    | 208          | 211          | 617           | 592           |
| <b>Total interest expense</b>                              | <b>8,093</b> | <b>7,250</b> | <b>23,299</b> | <b>19,509</b> |
| <b>NET INTEREST INCOME</b>                                 | <b>4,715</b> | <b>4,086</b> | <b>13,716</b> | <b>12,936</b> |
| <b>PROVISION FOR LOAN LOSSES</b>                           | <b>403</b>   | <b>-</b>     | <b>917</b>    | <b>104</b>    |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b> | <b>4,312</b> | <b>4,086</b> | <b>12,799</b> | <b>12,832</b> |
| <b>NONINTEREST INCOME:</b>                                 |              |              |               |               |
| Loan servicing fee income                                  | 167          | 369          | 856           | 1,113         |
| Bank and other fee income                                  | 155          | 136          | 463           | 370           |
| Net gain from loan sales                                   | 970          | 1,462        | 3,034         | 2,321         |
| Other income   | 227          | 219          | 766           | 548           |
| <b>Total noninterest income</b>                            | <b>1,519</b> | <b>2,186</b> | <b>5,119</b>  | <b>4,352</b>  |
| <b>NONINTEREST EXPENSE:</b>                                |              |              |               |               |
| Compensation and benefits                                  | 2,716        | 2,389        | 8,029         | 6,937         |
| Premises and occupancy                                     | 601          | 580          | 1,809         | 1,683         |
| Data processing  | 137          | 99           | 384           | 284           |
| Net gain on foreclosed real estate                         | 35           | 26           | 59            | 69            |
| Legal and audit  | 147          | 118          | 702           | 380           |
| Marketing expense  | 220          | 215          | 566           | 563           |
| Office and postage expense                                 | 95           | 102          | 299           | 299           |
| Other expense  | 455          | 394          | 1,295         | 1,120         |
| <b>Total noninterest expense</b>                           | <b>4,406</b> | <b>3,923</b> | <b>13,143</b> | <b>11,335</b> |

|   |        |          |          |          |
|---|--------|----------|----------|----------|
| <b>INCOME BEFORE<br/>INCOME TAXES</b>               | 1,425  | 2,349    | 4,775    | 5,849    |
| <b>PROVISION<br/>(BENEFIT) FOR<br/>INCOME TAXES</b> | 574    | 845      | 1,818    | (302)    |
| <b>NET INCOME</b>                                   | \$ 851 | \$ 1,504 | \$ 2,957 | \$ 6,151 |

|                              |         |         |         |         |
|------------------------------|---------|---------|---------|---------|
| <b>INCOME PER<br/>SHARE:</b> |         |         |         |         |
| Basic income per share       | \$ 0.16 | \$ 0.29 | \$ 0.57 | \$ 1.17 |
| Diluted income per<br>share  | \$ 0.13 | \$ 0.23 | \$ 0.45 | \$ 0.92 |

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| <b>WEIGHTED<br/>AVERAGE SHARES<br/>OUTSTANDING:</b> |           |           |           |           |
| Basic   | 5,163,488 | 5,263,988 | 5,197,737 | 5,261,195 |
| Diluted   | 6,491,760 | 6,684,649 | 6,554,247 | 6,685,263 |

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006  
(Dollars in thousands)  
(UNAUDITED)

|   | Common<br>Stock<br>Shares | Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Comprehensive<br>Income<br>(Loss) | Total<br>Stockholders'<br>Equity |
|---|---------------------------|--------|----------------------------------|------------------------|---|-----------------------------------|----------------------------------|
| Balance at<br>December 31,<br>2005                        | 5,228,438                 | \$ 53  | \$ 67,161                        | \$ (16,059)            | \$ (613)                                      |                                   | \$ 50,542                        |
| Net income  | -                         | -      | -                                | 6,151                  | -   | \$ 6,151                          | 6,151                            |
| Unrealized loss<br>on investments,<br>net of tax of (\$1) | -                         | -      | -                                | -                      | (15)  | (15)                              | (15)                             |
| Total<br>comprehensive<br>income                          |                           |        |                                  |                        |   | \$ 6,136                          |                                  |
| Shares<br>repurchased                                     | (2,750)                   |        |                                  |                        |   |                                   | -                                |
| Restricted stock<br>issued                                | 34,550                    |        |                                  |                        |   |                                   | -                                |
| Restricted stock<br>vested                                |                           | 1      | (1)                              |                        |   |                                   | -                                |
|   | (2,750)                   |        |                                  |                        |   |                                   | -                                |



**CASH FLOWS FROM  
OPERATING ACTIVITIES:**

|  |            |              |
|--|------------|--------------|
| Net income   | \$ 2,957   | \$ 6,151     |
| Adjustments to net income:   |            |              |
| Depreciation expense   | 599        | 295          |
| Provision for loan losses  | 917        | 104          |
| Share-based compensation   | 156        | 62           |
| (Gain) loss on sale and disposal of premises and equipment                   | (200)      | 8            |
| Loss on sale, provision, and write-down of foreclosed real estate            | 95         | 100          |
| Net unrealized loss (gain) and amortization on investment securities         | (18)       | 57           |
| Gain on sale of loans held for investment                                    | (3,034)    | (2,321)      |
| Purchase and origination of loans held for sale                              | (2,181)    | -            |
| Proceeds from the sales of, and principal payments from, loans held for sale | 825        | 161          |
| Change in current and deferred income tax receivable                         | 107        | (2,001)      |
| Increase in accrued expenses and other liabilities                           | 955        | 5,232        |
| Federal Home Loan Bank stock dividend  | (611)      | (523)        |
| Income from bank owned life insurance  | (394)      | (212)        |
| Decrease (increase) in accrued interest receivable and other assets          | 289        | (2,366)      |
| <b>Net cash provided by operating activities</b>                             | <b>462</b> | <b>4,747</b> |

**CASH FLOWS FROM  
INVESTING ACTIVITIES:**

|  |           |           |
|--|-----------|-----------|
| Proceeds from sale and principal payments on loans held for investment | 319,845   | 257,829   |
| Purchase, origination and advances of loans held for investment        | (337,423) | (247,771) |
| Principal payments on securities available for sale                    | 4,629     | -         |
| Proceeds from sale of foreclosed real estate                           | 69        | 280       |
| Purchase of securities available for sale                              | -         | (2,220)   |
| Purchase of securities held to maturity                                | (39,980)  | -         |



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|   |                 |                |
|---|-----------------|----------------|
| Proceeds from sale of equipment               | 200             | -              |
| Increase in premises and equipment            | (1,623)         | (679)          |
| Purchase of bank owned life insurance         | -               | (10,000)       |
| Purchase and redemption of FHLB and FRB stock | (663)           | (649)          |
| <b>Net cash used in investing activities</b>  | <b>(54,946)</b> | <b>(3,210)</b> |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|  |               |                |
|--|---------------|----------------|
| Net increase (decrease) in deposit accounts                | 50,602        | (6,434)        |
| Proceeds from (repayment of) FHLB advances                 | 10,400        | (7,835)        |
| (Repayment of) proceeds from other borrowings              | (15,606)      | 12,000         |
| Proceeds from exercise of stock options                    | -             | 57             |
| Repurchase of common stock                                 | (1,093)       | -              |
| <b>Net cash provided by (used in) financing activities</b> | <b>44,303</b> | <b>(2,212)</b> |

**NET DECREASE IN CASH AND CASH EQUIVALENTS**

|   |                 |                  |
|---|-----------------|------------------|
|   | (10,181)        | (675)            |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b> | <b>17,040</b>   | <b>34,055</b>    |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>       | <b>\$ 6,859</b> | <b>\$ 33,380</b> |

**SUPPLEMENTAL CASH FLOW DISCLOSURES:**

|                   |           |           |
|-------------------|-----------|-----------|
| Interest paid     | \$ 23,498 | \$ 19,524 |
| Income taxes paid | \$ 1,775  | \$ 1,345  |

**NONCASH OPERATING ACTIVITIES DURING THE PERIOD:**

|                         |       |      |
|-------------------------|-------|------|
| Restricted stock vested | \$ 12 | \$ - |
|-------------------------|-------|------|

**NONCASH INVESTING ACTIVITIES DURING THE PERIOD:**

|  |       |          |
|--|-------|----------|
| Transfers from loans to foreclosed real estate | \$ 46 | \$ 395   |
| Transfer loans from held for investment        | \$ -  | \$ 1,223 |
| Transfer loans from held for sale              | \$ -  | \$ 279   |

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2007  
(UNAUDITED)

**Note 1 - Basis of Presentation**

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the “Corporation”) and its wholly owned subsidiary, Pacific Premier Bank (the “Bank”) (collectively, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of September 30, 2007, and the results of its operations, changes in stockholders’ equity, comprehensive income and cash flows for the three and nine months ended September 30, 2007 and 2006. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending December 31, 2007.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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, 2006.

Certain amounts reflected in the 2006 consolidated financial statements have been reclassified where practicable, to conform to the presentation for 2007. These classifications are of a normal recurring nature.

The following table reflects the reclassification on the Company’s consolidated balance sheet of restricted shares issued from other assets to additional paid-in capital due to a 2006 year end audit adjustment. The adjustment was related to the recording of our 2006 issuance of restricted shares.

| <b>Additional<br/>Paid-in Capital</b> | <b>With<br/>reclassifications<br/>For Quarter<br/>Ended<br/>September 30,<br/>2006</b> | <b>Originally<br/>presented<br/>For Quarter<br/>Ended<br/>September 30,<br/>2006</b> | <b>Net<br/>Change</b> |
|---------------------------------------|--|--|-----------------------|
| Share-based compensation expense      | 62   | -  | 62                    |
| Restricted stock issued               | -  | 363  | (363)                 |
| Exercise of stock options             | 57   | 57   | -                     |
| Total activity                        | 119  | 420  | (301)                 |

The following table reflects the reclassification on the statement of Company's cash flows of proceeds from issuance of restricted stock from net cash used in operating activities to net cash used in financing activities and share-based compensation expense from increase in accrued interest and other assets to share-based compensation expense. It also reflects the reclassification of \$8.3 million from proceeds from sale and principal payments on loans held for investment to purchase, origination and advances of loans held for investment.

|  | <b>With<br/>reclassifications<br/>For Quarter<br/>Ended<br/>September 30,<br/>2006</b> | <b>Originally<br/>presented<br/>For Quarter<br/>Ended<br/>September 30,<br/>2006</b> | <b>Net<br/>Change</b> |
|--|--|--|-----------------------|
| Share-based compensation expense                                       | \$ 62  | \$ -   | \$ 62                 |
| Increase in accrued interest receivable and other assets               | (2,366)  | (2,667)  | 301                   |
| All other operating activities   | 7,051  | 7,051  | -                     |
| Net cash provided by operating activities                              | \$ 4,747   | \$ 4,384   | \$ 363                |
| Proceeds from sale and principal payments on loans held for investment | \$ 257,829   | \$ 249,554   | 8,275                 |
| Purchase, origination and advances of loans held for investment        | \$ (247,771)   | \$ (239,496)   | (8,275)               |
| All other financing activities   | (13,268)   | (13,268)   | -                     |
| Net cash used in investing activities                                  | \$ (3,210)   | \$ (3,210)   | \$ -                  |
| Proceeds from issuance of restricted stock                             | \$ -   | \$ 363   | (363)                 |
| All other financing activities   | (2,212)  | (2,212)  | -                     |
| Net cash used in financing activities                                  | \$ (2,212)   | \$ (1,849)   | \$ (363)              |

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

## **Note 2 – Recently Issued Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (or “FIN 48”) which clarifies the accounting and disclosure for uncertainty in tax positions as defined. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition: The enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We adopted FIN 48 effective January 1, 2007, and have determined that as of September 30, 2007, any uncertain tax positions that might exist are immaterial.

In September 2006, FASB’s Emerging Issues Task Force (EITF) reached a final consensus on the subject titled “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Arrangements.” The EITF has concluded that the recognition of a liability is required for the postretirement benefits provided through an endorsement split-dollar life insurance arrangement. Pursuant to the final consensus, if an employer has promised to pay a death benefit directly from the company to a participant (or designated beneficiary), then a liability for the present value of the death benefit must be accrued over the participant’s required service period. However, if the employer has agreed to maintain a split-dollar arrangement and share some portion of the death benefits of the underlying insurance policy, then the postretirement cost of insurance, rather than the death benefit, should be accrued. The new guidance will be effective for fiscal years beginning after December 15, 2007 and the adoption is not expected to have a material impact on the Company.

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements*, a standard that provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity’s own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. It is required that we adopt SFAS No. 157 on January 1, 2008. Adoption of SFAS 157 is not expected to have a material impact on the Company.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* (“SFAS 159”). SFAS 159 permits the measurement of many financial instruments and certain other balance sheet items at fair value, in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Upon adoption, balance sheet items designated for fair value accounting are marked to market

through equity, and the fair value option may also be selectively applied to items acquired after the adoption date. Unrealized gains and losses on all items so designated are reported in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument (with a few exceptions), and is applied only to entire instruments and not to portions thereof. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not anticipate that fair value accounting will be applied to any balance sheet item upon adoption of SFAS 159 on January 1, 2008, in which case there would be no impact on our financial condition, results of operations or cash flows. However, we cannot say with certainty that such application will not occur.

### **Note 3 – Regulatory Matters**

It is our goal to maintain capital levels within the regulatory “well capitalized” category. The Company’s (on a consolidated basis) and the Bank’s capital amounts and ratios are presented in the following tables:

|   | Actual    |        | To be adequately capitalized |       | To be well capitalized |        |
|---|-----------|--------|------------------------------|-------|------------------------|--------|
|   | Amount    | Ratio  | Amount                       | Ratio | Amount                 | Ratio  |
| <b>At September 30, 2007 (Unaudited)</b>            |           |        |                              |       |                        |        |
| Total Capital (to risk-weighted assets)             |           |        |                              |       |                        |        |
| Bank  | \$ 68,914 | 11.35% | \$ 48,553                    | 8.00% | \$ 60,691              | 10.00% |
| Consolidated  | \$ 69,791 | 11.41% | N/A                          | N/A   | N/A                    | N/A    |
| Tier 1 Capital (to adjusted tangible assets)        |           |        |                              |       |                        |        |
| Bank  | 64,467    | 8.63%  | 29,898                       | 4.00% | 37,372                 | 5.00%  |
| Consolidated  | 65,344    | 8.74%  | N/A                          | N/A   | N/A                    | N/A    |
| Tier 1 Risk-Based Capital (to risk-weighted assets) |           |        |                              |       |                        |        |
| Bank  | 64,467    | 10.62% | 24,277                       | 4.00% | 36,415                 | 6.00%  |
| Consolidated  | 65,344    | 10.68% | N/A                          | N/A   | N/A                    | N/A    |
| <b>At December 31, 2006</b>                         |           |        |                              |       |                        |        |
| Total Capital (to risk-weighted assets)             |           |        |                              |       |                        |        |
| Bank  | \$ 64,124 | 11.55% | \$ 44,407                    | 8.00% | \$ 55,508              | 10.00% |
| Consolidated  | \$ 66,734 | 12.01% | N/A                          | N/A   | N/A                    | N/A    |

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| Tier 1 Capital (to adjusted tangible assets)        |        |        |        |       |        |       |
|---|--------|--------|--------|-------|--------|-------|
| Bank  | 60,747 | 8.38%  | 29,012 | 4.00% | 36,265 | 5.00% |
| Consolidated  | 63,357 | 8.73%  | N/A    | N/A   | N/A    | N/A   |
| Tier 1 Risk-Based Capital (to risk-weighted assets) |        |        |        |       |        |       |
| Bank  | 60,747 | 10.94% | 22,203 | 4.00% | 33,305 | 6.00% |
| Consolidated  | 63,357 | 11.40% | N/A    | N/A   | N/A    | N/A   |

The amounts for December 31, 2006 are calculated using total actual assets per Office of Thrift Supervision guidelines. As of September 30, 2007, the amounts are calculated using total average assets per Federal Reserve Board guidelines.

**Note 4 – Borrowings**

At September 30, 2007, total borrowings of the Company amounted to \$321.6 million. The borrowings were comprised of Federal Home Loan Bank (“FHLB”) term borrowings and overnight advances of \$265.0 million and \$45.7 million, respectively, \$10.3 million Trust Preferred Securities at 8.11%, and \$500,000 at a rate of 5.50% per annum against the Bank’s \$18.6 million credit facility, secured by mutual funds pledged to Pershing LLC. The Bank’s \$310.7 million in FHLB advances had a weighted average interest rate of 4.85% and the term advances had a weighted average maturity of 1.22 years as of September 30, 2007. As of such date, advances from the FHLB were collateralized by pledges of certain real estate loans with an aggregate principal balance of \$470.0 million. As of September 30, 2007, the Bank was able to borrow up to 45% of its total assets as of June 30, 2007 under the line, which amounted to \$321.6 million, a decrease of \$5.6 million from the quarter ended June 30, 2007. FHLB advances consisted of the following as of September 30, 2007:

| FHLB Advances Maturing in:      | Amount                 | Percent of Total | Weighted Average Annual Interest Rate |
|---------------------------------|------------------------|------------------|---------------------------------------|
|                                 | (dollars in thousands) |                  |                                       |
| One month or less               | \$ 135,700             | 43.68%           | 4.74%                                 |
| Over one month to three months  | -                      | 0.00%            | 0.00%                                 |
| Over three months to six months | -                      | 0.00%            | 0.00%                                 |
| Over six months to one year     | -                      | 0.00%            | 0.00%                                 |
| Over one year                   | 175,000                | 56.32%           | 4.93%                                 |
| Total FHLB advances             | \$ 310,700             | 100.00%          | 4.85%                                 |

**Note 5 – Subordinated Debentures**

In March 2004, the Corporation issued \$10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Subordinated Debentures”) to PPBI Trust I, which funded the payment of \$10.0 million of Floating Rate Trust Preferred Securities issued by PPBI Trust I in March 2004. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 8.11% per annum as of September 30, 2007.

Under FIN 46R, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,” the Corporation is not allowed to consolidate PPBI Trust I into the Company’s financial statements. The resulting effect on the Company’s consolidated financial statements is to report the Subordinated Debentures as a component of liabilities. Prior to the issuance of FIN 46R, bank holding companies typically consolidated these entities and reported the Trust Preferred Securities as a component of liabilities.

**Note 6 – Earnings Per Share**

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing income available to common stockholders including common stock equivalents, such as outstanding stock options and warrants by the weighted average number of common shares and common stock equivalents outstanding for the period. Stock options totaling 161,862 and 254,261 shares for the three months ended September 30, 2007 and September 30, 2006, respectively, and 190,110 and 257,668 for the nine months ended September 30, 2007 and September 30, 2006, respectively, were excluded from the computations of diluted earnings per share due to their exercise price exceeding the average market price for their respective periods.

The table below set forth the Company’s unaudited earnings per share calculations for the three and nine months ended September 30, 2007 and 2006.

|  | <b>For the Three Months Ended September 30,</b> |               |                  |                 |               |                  |
|--|---|---------------|------------------|-----------------|---------------|------------------|
|  | <b>2007</b>                                     |               | <b>2006</b>      |                 |               |                  |
|  | <b>Net</b>                                      |               | <b>Per Share</b> | <b>Net</b>      |               | <b>Per Share</b> |
|  | <b>Earnings</b>                                 | <b>Shares</b> | <b>Amount</b>    | <b>Earnings</b> | <b>Shares</b> | <b>Amount</b>    |
|  | (dollars in thousands)                          |               |                  |                 |               |                  |
| Net Earnings   | \$ 851  |               |                  | \$ 1,504        |               |                  |
| Basic EPS Earnings available to common stockholders                            | \$ 851  | 5,163,488     | \$ 0.16          | \$ 1,504        | 5,263,988     | \$ 0.29          |
| Effect of Warrants and dilutive stock options                                  | -   | 1,328,272     |                  | -               | 1,420,661     |                  |
| Diluted EPS Earnings Available to common stockholders plus assumed conversions | \$ 851  | 6,491,760     | \$ 0.13          | \$ 1,504        | 6,684,649     | \$ 0.23          |

  

|  | <b>For the Nine Months Ended September 30,</b> |               |                  |                 |               |                  |
|--|--|---------------|------------------|-----------------|---------------|------------------|
|  | <b>2007</b>                                    |               | <b>2006</b>      |                 |               |                  |
|  | <b>Net</b>                                     |               | <b>Per Share</b> | <b>Net</b>      |               | <b>Per Share</b> |
|  | <b>Earnings</b>                                | <b>Shares</b> | <b>Amount</b>    | <b>Earnings</b> | <b>Shares</b> | <b>Amount</b>    |
|  | (dollars in thousands)                         |               |                  |                 |               |                  |

|  |    |       |           |    |       |    |       |           |    |      |
|--|----|-------|-----------|----|-------|----|-------|-----------|----|------|
| Net Earnings   | \$ | 2,957 |           | \$ | 6,151 |    |       |           |    |      |
| Basic EPS Earnings available to common stockholders                            | \$ | 2,957 | 5,197,737 | \$ | 0.57  | \$ | 6,151 | 5,261,195 | \$ | 1.17 |
| Effect of Warrants and dilutive stock options                                  |    | -     | 1,356,510 |    |       |    | -     | 1,424,068 |    |      |
| Diluted EPS Earnings Available to common stockholders plus assumed conversions | \$ | 2,957 | 6,554,247 | \$ | 0.45  | \$ | 6,151 | 6,685,263 | \$ | 0.92 |

### **Note 7 – Valuation Allowance for Deferred Income Taxes**

During 2006, the Company reversed all of the remaining valuation allowance, as the deferred tax assets were determined, more likely than not, to be realized based on the Company's quarterly analysis of its valuation allowance for deferred taxes. The Company benefited from the reduction in its valuation allowance for deferred taxes for the three and nine months ended September 30, 2006 of zero and \$2.4 million, respectively. The Company's valuation allowance for deferred taxes was zero at September 30, 2007.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **FORWARD-LOOKING STATEMENTS**

The statements contained herein that are not historical facts are forward-looking statements based on management's current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that future developments affecting the Company will be the same as those anticipated by management. Actual results may differ from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties. These include, but are not limited to, the following risks: (1) changes in the performance of the financial markets, (2) changes in the demand for and market acceptance of the Company's products and services, (3) changes in general economic conditions including interest rates, presence of competitors with greater financial resources, and the impact of competitive products and pricing, (4) the effect of the Company's policies, (5) the continued availability of adequate funding sources, and (6) various legal, regulatory and litigation risks.

### **GENERAL**

The following presents management's discussion and analysis of the consolidated financial condition and operating results of the Company for the three and nine months ended September 30, 2007 and 2006. The discussion should be read in conjunction with the Company's Management Discussion and Analysis included in the 2006 Annual Report on Form 10-K, plus the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this report. The results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results expected for the year ending December 31, 2007.

The Corporation, a Delaware corporation organized in 1997, is a bank holding company that owns 100% of the capital stock of the Bank, the Corporation's principal operating subsidiary. The primary business of the Company is community banking.

The Bank was founded in 1983 as a state chartered savings and loan, became a federally chartered stock savings bank in 1991 and on March 30, 2007, converted to a California state chartered commercial bank. The Bank is a member of the FHLB of San Francisco, which is a member bank of the Federal Home Loan Bank System, and the Federal



Reserve System. The Bank's deposit accounts are insured up to the \$100,000 maximum amount, except for retirement accounts which are insured up to the \$250,000 maximum currently allowable under federal laws by the Deposit Insurance Fund, which is an insurance fund administered by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to examination and regulation by the California Department of Financial Institutions ("DFI"), the Board of Governors of the Federal Reserve System ("FRB"), and by the FDIC. Additionally, the Corporation is subject to regulation and supervision by the FRB.

The Company is a financial services organization committed to serving consumers and small businesses in Southern California. The Bank operates six depository branches in Southern California located in the cities of Costa Mesa, Huntington Beach, Los Alamitos, Newport Beach, San Bernardino, and Seal Beach. The Company's corporate headquarters are located in Costa Mesa, California. The Bank, through its branches and web site at [www.PPBI.net](http://www.PPBI.net) on the Internet, offers a broad array of deposit products and services for both commercial and consumer customers including NOW accounts, checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment services. Additionally, the Bank offers a wide array of loan products, such as commercial business loans, lines of credit, commercial real estate loans, SBA loans, residential home loans, and home equity loans. The Bank funds its lending and investment activities with retail deposits obtained through its branches, advances from the FHLB of San Francisco, lines of credit, and wholesale and brokered certificates of deposits.

The Company's principal sources of income are the net spread between interest earned on loans and investments and the interest costs associated with deposits and other borrowings used to finance its loan and investment portfolio. Additionally, the Bank generates fee income from loan sales and various products and services offered to both depository and loan customers.

### **CRITICAL ACCOUNTING POLICIES**

Management has established various accounting policies which govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company's financial statements. The Company's significant accounting policies are described in the Notes to the Consolidated Financial Statements in our 2006 Annual Report on Form 10-K. Certain accounting policies require management to make estimates and assumptions which have a material impact on the carrying value of certain assets and liabilities; management considers these to be critical accounting policies. The estimates and assumptions management uses are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at balance sheet dates and the Company's results of operations for future reporting periods.

Management believes that the allowance for loan losses is the critical accounting policy that requires estimates and assumptions in the preparation of the Company's financial statements that are most susceptible to significant change. For further information, see "Allowances for Loan Losses" discussed later in this document and in our 2006 Annual Report on Form 10-K.

### **FINANCIAL CONDITION**

Total assets of the Company were \$779.1 million as of September 30, 2007, compared to \$730.9 million as of December 31, 2006. The \$48.2 million, or 6.6%, increase in total assets is primarily due to increases in investment securities held to maturity and net loans of \$40.0 million and \$21.0 million, respectively, partially offset by a decrease in federal funds sold of \$10.0 million.

### **Investment Securities**

A summary of the Company's securities as of September 30, 2007 and December 31, 2006 is as follows:

|                                     | <b>September 30, 2007</b> |                   |                   |                  |
|-------------------------------------|---------------------------|-------------------|-------------------|------------------|
|                                     | <b>Amortized</b>          | <b>Unrealized</b> | <b>Unrealized</b> | <b>Estimated</b> |
|                                     | <b>Cost</b>               | <b>Gain</b>       | <b>Loss</b>       | <b>Market</b>    |
|                                     |                           | (in thousands)    |                   | <b>Value</b>     |
| Securities Available for Sale:      |                           |                   |                   |                  |
| Mortgage-Backed Securities (1)      |                           |                   |                   |                  |
| \$                                  | 30,760                    | \$ -              | \$ (281)          | \$ 30,479        |
| Mutual Funds (2)                    |                           |                   |                   |                  |
|                                     | 27,719                    | -                 | (1,138)           | 26,581           |
| Total securities available for sale |                           |                   |                   |                  |
| \$                                  | 58,479                    | \$ -              | \$ (1,419)        | \$ 57,060        |
| Securities Held to Maturity:        |                           |                   |                   |                  |
| FHLB Stock                          |                           |                   |                   |                  |
| \$                                  | 15,002                    | \$ -              | \$ -              | \$ 15,002        |
| Federal Reserve Bank Stock          |                           |                   |                   |                  |
|                                     | 1,600                     |                   |                   | 1,600            |
| FHLB discount note                  |                           |                   |                   |                  |
|                                     | 39,980                    | -                 | -                 | 39,980           |
| Total securities held to maturity   |                           |                   |                   |                  |
| \$                                  | 56,582                    | \$ -              | \$ -              | \$ 56,582        |
| Total securities                    |                           |                   |                   |                  |
| \$                                  | 115,061                   | \$ -              | \$ (1,419)        | \$ 113,642       |
|                                     | <b>December 31, 2006</b>  |                   |                   |                  |
|                                     | <b>Amortized</b>          | <b>Unrealized</b> | <b>Unrealized</b> | <b>Estimated</b> |
|                                     | <b>Cost</b>               | <b>Gain</b>       | <b>Loss</b>       | <b>Market</b>    |
|                                     |                           | (in thousands)    |                   | <b>Value</b>     |
| Securities Available for Sale:      |                           |                   |                   |                  |
| Mortgage-Backed Securities          |                           |                   |                   |                  |
| \$                                  | 35,271                    | \$ 12             | \$ (202)          | \$ 35,081        |
| Mutual Funds                        |                           |                   |                   |                  |
|                                     | 27,719                    | -                 | (984)             | 26,735           |
| Total securities available for sale |                           |                   |                   |                  |
| \$                                  | 62,990                    | \$ 12             | \$ (1,186)        | \$ 61,816        |
| Securities Held to Maturity:        |                           |                   |                   |                  |
| FHLB Stock                          |                           |                   |                   |                  |
| \$                                  | 15,328                    | \$ -              | \$ -              | \$ 15,328        |
| Total securities held to maturity   |                           |                   |                   |                  |
| \$                                  | 15,328                    | \$ -              | \$ -              | \$ 15,328        |
| Total securities                    |                           |                   |                   |                  |
| \$                                  | 78,318                    | \$ 12             | \$ (1,186)        | \$ 77,144        |

(1) At September 30, 2007, mortgage-backed securities include two collateralized mortgage obligations ("CMO") with a carrying value of \$8.4 million. One CMO with a carrying value of \$6.5 million is secured by the Federal Home Loan Mortgage Corporation; the other CMO with a carrying value of \$1.9 million is an "AAA" rated private label issue.

(2)

The Company's mutual fund investments are with Shay Assets Management Inc, within their AMF Ultra Short Mortgage fund and their AMF Intermediate Mortgage fund. Both of these funds qualified for inclusion in the 20% risk-weighting capital category for the quarter ended September 30, 2007. An aggregate of \$714,000 of the mutual funds have been pledged to Pershing, LLC to secure an advance of \$500,000 under the Bank's \$18.6 million line of credit.

### Investment Securities by Contractual Maturity

As of September 30, 2007

(dollars in thousands)

|  | One Year<br>or Less<br>Carrying<br>Value |       | More<br>than One<br>to Five<br>Years<br>Carrying<br>Value |       | More<br>than Five<br>to Ten<br>Years<br>Carrying<br>Value |       | More than<br>Ten Years<br>Carrying<br>Value |       | Total<br>Carrying<br>Value |       |
|--|--|-------|---|-------|---|-------|---|-------|----------------------------|-------|
|  | Yield                                    | Yield | Yield   | Yield | Yield   | Yield | Yield                                       | Yield | Yield                      |       |
| Mortgage-Backed<br>Securities          | \$ -                                     | 0.00% | \$ -  | 0.00% | \$ -  | 0.00% | \$ 30,479                                   | 5.22% | \$ 30,479                  | 5.22% |
| Mutual Fund                            | 26,581                                   | 5.18% | -   | 0.00% | -   | 0.00% | -   | 0.00% | 26,581                     | 5.18% |
| Total securities<br>available for sale | 26,581                                   | 5.18% | -   | 0.00% | -   | 0.00% | 30,479                                      | 5.22% | 57,060                     | 5.20% |
| FHLB Stock                             | 15,002                                   | 5.22% | -   | 0.00% | -   | 0.00% | -   | 0.00% | 15,002                     | 5.22% |
| Federal Reserve<br>Bank Stock          | 1,600                                    | 6.00% | -   | 0.00% | -   | 0.00% | -   | 0.00% | 1,600                      | 6.00% |
| FHLB discount<br>note                  | 39,980                                   | 4.51% | -   | 0.00% | -   | 0.00% | -   | 0.00% | 39,980                     | 4.51% |
| Total securities<br>held to maturity   | 56,582                                   | 4.74% | -   | 0.00% | -   | 0.00% | -   | 0.00% | 56,582                     | 4.74% |
| Total securities                       | \$ 83,163                                | 2.60% | \$ -  | 0.00% | \$ -  | 0.00% | \$ 30,479                                   | 5.22% | \$ 113,642                 | 3.30% |

The Company reviewed individual securities classified as available for sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that the Company will be unable to collect all amounts due according to contractual terms of the debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred. If an other-than-temporary impairment occurs, the cost basis of the security would have been written down to its fair value as the new cost basis and the write down accounted for as a realized loss. Management has determined that the unrealized losses on these securities are temporary in nature.

### Loans

Gross loans outstanding totaled \$629.8 million at September 30, 2007 compared to \$607.6 million at December 31, 2006. The increase is primarily due to loan originations of \$332.1 million. Partially offsetting the loan originations were loan sales totaling \$184.2 million and loan prepayments of \$105.3 million. The Bank sold \$178.3 million of multi-family loans and \$5.9 million of commercial real estate loans, which generated net gains of \$3.0 million. Management has utilized loan sales to manage its liquidity, interest rate risk, loan to deposit ratio, diversification of its loan portfolio, and net balance sheet growth, and expects to continue to do so for the foreseeable future. The Bank's pipeline of new loans at September 30, 2007 was \$90.2 million.

A summary of the Company's loan originations, loan sales and principal repayments for the nine months ended September 30, 2007 and 2006 are as follows:

|  | <b>For the Nine Months Ended</b> |                  |
|--|----------------------------------|------------------|
|  | <b>September</b>                 | <b>September</b> |
|  | <b>30, 2007</b>                  | <b>30, 2006</b>  |
|  | (in thousands)                   |                  |
| Beginning balance, gross                         | \$ 607,618                       | \$ 604,976       |
| Loans originated and purchased:                  |                                  |                  |
| Real Estate:                                     |                                  |                  |
| Multi-family                                     | 248,011                          | 131,440          |
| Commercial real estate                           | 21,751                           | 56,409           |
| One-to-four family (1)                           | 3,191                            | 500              |
| Business Loans:                                  |                                  |                  |
| Commercial Owner Occupied (1)                    | 13,111                           | 26,187           |
| Commercial and Industrial (1)                    | 30,430                           | 18,248           |
| SBA (1)  | 12,841                           | 6,712            |
| Other  | 2,780                            | -                |
| Total loans originated and purchased             | 332,115                          | 239,496          |
| Total  | 939,733                          | 844,472          |
| Less:  |                                  |                  |
| Principal repayments                             | 133,119                          | 111,181          |
| Change in undisbursed loan funds                 | (7,489)                          | (8,275)          |
| Charge-offs                                      | 101                              | 71               |
| Loan Sales                                       | 184,176                          | 144,012          |
| Transfers to Real Estate Owned                   | 46                               | 433              |
| Total Gross loans                                | 629,780                          | 597,050          |
| Less ending balance loans held for sale (gross)  | 2,134                            | 1,223            |
| Ending balance loans held for investment (gross) | \$ 627,646                       | \$ 595,827       |

(1) Includes lines of credit

The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated:

**September 30, 2007**

**December 31, 2006**

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|                                 | Weighted<br>Percent Average<br>of Interest |         |        | Weighted<br>Percent Average<br>of Interest |         |       |
|---------------------------------|--|---------|--------|--|---------|-------|
| Amount                          | Total                                      | Rate    | Amount | Total                                      | Rate    |       |
| (dollars in thousands)          |  |         |        |  |         |       |
| Real Estate                     |  |         |        |  |         |       |
| Loans:                          |  |         |        |  |         |       |
| Multi-family                    | \$ 338,337                                 | 53.72%  | 6.97%  | \$ 357,275                                 | 58.80%  | 6.90% |
| Commercial                      | 164,860                                    | 26.18%  | 7.52%  | 173,452                                    | 28.55%  | 7.38% |
| One-to-four<br>family (1)       | 13,301                                     | 2.11%   | 8.69%  | 12,825                                     | 2.11%   | 9.48% |
| Business                        |  |         |        |  |         |       |
| Loans:                          |  |         |        |  |         |       |
| Commercial<br>Owner<br>Occupied | 53,866                                     | 8.55%   | 7.56%  | 35,929                                     | 5.91%   | 7.31% |
| Commercial<br>and<br>Industrial | 41,509                                     | 6.59%   | 8.63%  | 22,762                                     | 3.75%   | 9.09% |
| SBA                             | 16,006                                     | 2.54%   | 8.89%  | 5,312                                      | 0.87%   | 9.90% |
| Other Loans                     | 1,901                                      | 0.30%   | 8.28%  | 63   | 0.01%   | 9.44% |
| Total Gross<br>loans            | \$ 629,780                                 | 100.00% | 7.36%  | \$ 607,618                                 | 100.00% | 7.23% |

(1) Includes second trust deeds.

The following table sets forth the repricing characteristics of the Company's multi-family and commercial real estate (excluding land) and commercial owner occupied loan portfolio in dollar amounts as of September 30, 2007:

|                        | Number<br>of<br>Loans | Amount     | Weighted<br>Average<br>Interest<br>Rate | Months<br>to<br>Reprice |
|------------------------|-----------------------|------------|---|-------------------------|
| (dollars in thousands) |                       |            |   |                         |
| ARM *                  | 274                   | \$ 220,820 | 7.655%                                  | 1.98                    |
| 3 Year                 | 93                    | 130,252    | 6.997%                                  | 27.97                   |
| 5 Year                 | 121                   | 153,585    | 6.736%                                  | 50.38                   |
| 7 Year                 | 13                    | 11,008     | 7.131%                                  | 77.54                   |
| 10 Year                | 17                    | 12,759     | 6.904%                                  | 114.41                  |
| Fixed                  | 25                    | 28,639     | 7.090%                                  | -                       |
| Total                  | 543                   | \$ 557,063 | 7.196%                                  | 103.49                  |

\* Included three and five year hybrid loans that have reached their initial repricing date.

**Allowance for Loan Losses**

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The allowance for loan losses totaled \$4.4 million as of September 30, 2007 and \$3.5 million as of December 31, 2006. The increase in the allowance for loan losses was primarily due to the transitioning of the Bank's loan portfolio to include more business loans and less multi-family loans, and an increase in nonperforming loans. Net nonaccrual loans and other real estate owned were \$4.6 million and \$20,000, respectively, at September 30, 2007, compared to \$574,000 and \$138,000, respectively, as of December 31, 2006. The increase in net nonaccrual loans at quarter end are due to four loans associated with two separate and unrelated entities. One of these entities defaulted on three SBA guaranteed loans totaling \$1.1 million. The non-guaranteed portion of these three loans totals \$572,000, which has been fully reserved for. On October 10, 2007, the Bank received three payments on each of these SBA loans. The other commercial loan on nonaccrual is a \$3.1 million commercial real estate loan that is 30 days delinquent at quarter end. The collateral securing the loan is currently in litigation with the plaintiff, a former associate of the borrower, alleging the fraudulent reconveyance of their previously recorded lien. Management believes that it will not suffer a loss on this loan, as the title company has accepted the tender of defense subject to its normal reservation of rights and the collateral value securing the loan is considered adequate. See "Legal Proceedings". The allowance for loan losses as a percent of nonaccrual loans decreased to 96% as of September 30, 2007 from 559% at December 31, 2006. The ratio of nonperforming assets to total assets at September 30, 2007 was 0.60%.

The Company's determination of the level of the allowance for loan losses and, correspondingly, the provision for loan losses, rests upon various judgments and assumptions. The allowance for the one-to-four family residential loan portfolio is calculated based upon a historical delinquency migration analysis. The developed loss factors are assigned to a one-to-four family residential loan based on the loan's geographic location and credit classification. For the multi-family and commercial real estate loan portfolio, the Bank analyzes and uses the 15 year historical loan loss experience for California's multi-family and commercial real estate secured loans compiled by the FDIC to determine its loss factors, since the Bank has not experienced any losses or, until now, delinquency on its own loans within this loan portfolio. For the commercial and industrial loan portfolio, along with the non-guaranteed portion of the SBA portfolio, the Bank bases the level of allowance on the type of collateral and 15 year historical loan loss experience for commercial business loans compiled by the FDIC. Given the composition of the Company's loan portfolio, the \$4.4 million allowance for loan losses was considered adequate to cover losses inherent in the Company's loan portfolio at September 30, 2007. However, no assurance can be given that the Company will not, in any particular period, sustain loan losses that exceed the amount reserved, or that subsequent evaluation of the loan portfolio, in light of the prevailing factors, including economic conditions which may adversely affect the Company's market area or other circumstances, will not require significant increases in the loan loss allowance. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additional provisions to increase the allowance or take charge-offs in anticipation of future losses.

The table below summarizes the activity of the Company's allowance for loan losses for the three and nine months ended September 30, 2007 and 2006:

|                              | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|------------------------------|---------------------------|-------------|--------------------------|-------------|
|                              | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                              | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
|                              | <b>(in thousands)</b>     |             |                          |             |
| Balance, beginning of period | \$ 4,090                  | \$ 2,967    | \$ 3,543                 | \$ 3,050    |
| Provision for loan losses    | 403                       | -           | 917                      | 104         |
| Charge-offs                  |                           |             |                          |             |
| Real estate:                 |                           |             |                          |             |
| Multi-family                 | -                         | -           | -                        | -           |

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|                        |          |          |          |          |
|------------------------|----------|----------|----------|----------|
| Commercial             | -        | -        | -        | -        |
| One-to-four family     | (56)     | (30)     | (101)    | (266)    |
| Business Loans:        |          |          |          |          |
| Commercial Owner       |          |          |          |          |
| Occupied               | -        | -        | -        | -        |
| Commercial and         |          |          |          |          |
| Industrial             | -        | -        | -        | -        |
| SBA loans              | -        | -        | -        | -        |
| Other loans            | -        | -        | -        | -        |
| Total charge-offs      | (56)     | (30)     | (101)    | (266)    |
| Recoveries             |          |          |          |          |
| Real estate:           |          |          |          |          |
| Multi-family           |          |          |          |          |
| Commercial real estate | -        | -        | -        | -        |
| One-to-four family     | 10       | 146      | 86       | 193      |
| Business Loans:        |          |          |          |          |
| Commercial Owner       |          |          |          |          |
| Occupied               | -        | -        | -        | -        |
| Commercial and         |          |          |          |          |
| Industrial             | -        | -        | -        | -        |
| SBA loans              | -        | -        | -        | -        |
| Other loans            | -        | -        | 2        | 2        |
| Total recoveries       | 10       | 146      | 88       | 195      |
| Net recoveries         |          |          |          |          |
| (charge-offs)          | (46)     | 116      | (13)     | (71)     |
| Balance, end of period | \$ 4,447 | \$ 3,083 | \$ 4,447 | \$ 3,083 |

**Composition of Nonperforming Assets**

The table below summarizes the Company's composition of nonperforming assets as of the dates indicated. Net nonperforming assets totaled \$4.6 million at September 30, 2007 and \$712,000 as of December 31, 2006, or 0.60% and 0.10% of total assets, respectively.

|                                       | <b>At September<br/>30,<br/>2007</b> | <b>At December<br/>31,<br/>2006</b> |
|---------------------------------------|--------------------------------------|-------------------------------------|
| Nonperforming assets:                 | (dollars in thousands)               |                                     |
| Real Estate:                          |                                      |                                     |
| One-to-four family                    | 377                                  | 634                                 |
| Multi-family                          | -                                    | -                                   |
| Commercial                            | 3,125                                | -                                   |
| Business loans:                       |                                      |                                     |
| Commercial owner occupied             | -                                    | -                                   |
| Commercial and industrial             | -                                    | -                                   |
| SBA                                   | 1,122                                | -                                   |
| Other loans                           | -                                    | -                                   |
| Total nonaccrual loans                | 4,624                                | 634                                 |
| Specific allowance                    | -                                    | (60)                                |
| Total nonperforming loans, net        | 4,624                                | 574                                 |
| Foreclosed real estate owned ("OREO") | 20                                   | 138                                 |

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|   |    |        |    |         |
|---|----|--------|----|---------|
| Total nonperforming assets, net (1)   | \$ | 4,644  | \$ | 712     |
| Restructured Loans  | \$ | -      | \$ | -       |
| Allowance for loan losses as a percent of gross loans receivable (2)                    |    | 0.71%  |    | 0.58%   |
| Allowance for loan losses as a percent of total nonperforming loans, gross              |    | 96.17% |    | 558.83% |
| Nonperforming loans, net of specific allowances, as a percent of gross loans receivable |    | 0.73%  |    | 0.09%   |
| Nonperforming assets, net of specific allowances, as a percent of total assets          |    | 0.60%  |    | 0.10%   |

(1) Nonperforming assets consist of nonperforming loans and OREO. Nonperforming loans consisted of all loans 90 days or more past due, loans so designated by the Bank's management, and foreclosures in process on loans secured by one-to-four family residences less than 90 days and still accruing interest.

(2) Gross loans include loans receivable that are held for investment and are held for sale.

### **Liabilities and Stockholders' Equity**

Total liabilities of the Company increased from \$672.8 million at December 31, 2006 to \$719.2 million at September 30, 2007. The increase is primarily due to an increase in total deposits of \$50.6 million which were partially offset by a decrease in other borrowings of \$5.2 million.

The Company had \$311.3 million in FHLB advances and other borrowings as of September 30, 2007, compared to \$316.5 million in such borrowings at December 31, 2006. Advances from the FHLB are collateralized by pledges of certain real estate loans with an aggregate principal balance of \$470.0 million at September 30, 2007. The Bank may borrow up to 45% of its assets under the FHLB line. As of September 30, 2007, the maximum the Bank may borrow through FHLB was \$321.5 million, based on the Bank's assets as of June 30, 2007. The total cost of the Company's borrowings for the nine-month period ending September 30, 2007 was 5.12%, an increase of 46 basis points compared to the same period in 2006.

The Corporation had \$10.3 million of subordinated debentures as of September 30, 2007 which were used to fund the issuance of trust preferred securities in 2004. The total cost of the subordinated debentures for the nine months ending September 30, 2007 was 7.98%, compared to 7.66% for the same period in 2006.

Deposits increased by \$50.7 million to \$390.1 million at September 30, 2007, compared to \$339.4 million of deposits at December 31, 2006. The increase in deposits is comprised of increases of \$43.8 million and \$13.2 million in retail certificates of deposits and brokered certificate of deposits, partially offset by a decrease in transaction accounts of \$6.4 million. The cost of deposits as of September 30, 2007 was 4.36%, an increase of 21 basis points since December 31, 2006.

During the nine months ended September 30, 2007, the cost of funds was 4.68%, an increase of 55 basis points compared to the same period in 2006.



Total stockholders' equity increased \$1.9 to \$59.9 million at September 30, 2007, compared to \$58.0 million at December 31, 2006, primarily due to net income of \$3.0 million for the nine months, which was partially offset by the repurchase and retirement of 100,000 shares of the Company's common stock.

## **RESULTS OF OPERATIONS**

### **Highlights for the three and nine months ended September 30, 2007 and 2006:**

The Company recorded third quarter net income of \$851,000, or \$0.13 per diluted share, compared to net income of \$1.5 million, or \$0.23 per diluted share, for the third quarter of 2006, a decrease of 43.4% in earnings per diluted share. The net income for the nine months ended September 30, 2007 was \$3.0 million, or \$0.45 per diluted share, compared to net income of \$6.2 million, or \$0.92 per diluted share, for the nine months ended September 30, 2006. The result for the 2006 nine-month period was positively impacted by a \$2.4 million reduction in the valuation allowance for deferred tax assets. All diluted earnings per share amounts have been adjusted to reflect the dilutive effect of all warrants and stock options, except for options whose exercise price exceeds the closing market price as of September 30, 2007, outstanding. See Note 6 – Earnings Per Share.

Return on average assets (ROAA) for the three and nine months ended September 30, 2007 was 0.45% and 0.54% compared to 0.86% and 1.19% for the same periods in 2006. The Company's return on average equity (ROAE) for the three and nine months ended September 30, 2007 was 5.13% and 6.61%, respectively, compared to 10.38% and 15.16%, respectively, for the three and nine months ended September 30, 2006. The Company's basic and diluted book value per share increased to \$11.60 and \$9.56, respectively, at September 30, 2007, reflecting annualized increases of 6.9% and 4.7% from December 31, 2006. Options whose exercise price exceeds the closing market price as of September 30, 2007 are excluded from the diluted book value calculation.

### **Net Interest Income**

The Company's earnings are derived predominately from net interest income, which is the difference between the interest income earned on interest-earning assets, primarily loans and securities, and the interest expense incurred on interest-bearing liabilities, primarily deposits and borrowings. The net interest margin is the net interest income divided by the average interest-earning assets.

For the three and nine months ended September 30, 2007, net interest income increased to \$4.7 million and \$13.7 million, respectively, compared to \$4.1 million and \$12.9 million for the same periods a year earlier. The increase for the three-month period is predominately attributable to a 13.0% growth in interest income, from \$11.3 million to \$12.8 million. Growth in interest income was predominately attributable to a 6.2% increase in the average loan yield to 7.40% from 6.97% over the prior year period plus an increase in average loans outstanding of \$23.5 million. As part of the Bank's commercial banking platform, management implements various strategies to increase interest income through the origination of higher yielding commercial real estate and small business loans. Partially offsetting the increase in interest income was an increase in interest expense for the three months ended September 30, 2007 of 11.6%, or \$843,000. The increase in interest expense was attributable to increases in average deposits outstanding of \$59.0 million, as well as the increase in the average cost of deposits of 62 basis points over the prior year period.

The net interest margin for the quarter ended September 30, 2007 was 2.65% compared to 2.46% for the same period a year ago. The increase was primarily attributable to increases in the average rate earned on loans of 43 basis points, which was partially offset by an increase in the average cost of deposits. The increase in the cost of funds is attributable to continued strong competitor deposit pricing within the Bank's primary markets which was partially offset by lower borrowing costs associated with the Bank's Federal Home Loan Bank ("FHLB") advances. The increase in loan rates is primarily due to the change in the mix of the loan portfolio to include more commercial real estate and

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business loans and less multi-family loans, as well as, the repricing of the Bank's adjustable loans. Non-multi-family loans increased from 41.2% of the loan portfolio as of September 30, 2006 to 46.2% a year later. The net interest margin for the nine months ended September 30, 2007 was 2.64% compared to 2.61% for the same period a year ago.

The following tables set forth the Company's average balance sheets and the related weighted average yields and costs on average interest-earning assets and interest-bearing liabilities, for the three and nine months ended September 30, 2007 and 2006. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are measured on a daily basis. The yields and costs include fees that are considered adjustments to yields.

|  | Three Months Ended<br>September 30, 2007 |          |                                     | Three Months Ended<br>September 30, 2006 |          |                                     |
|--|--|----------|-------------------------------------|--|----------|-------------------------------------|
|  | Average<br>Balance                       | Interest | Average<br>Annualized<br>Yield/Cost | Average<br>Balance                       | Interest | Average<br>Annualized<br>Yield/Cost |
| (dollars in thousands)                     |  |          |                                     |  |          |                                     |
| <b>Assets</b>                              |  |          |                                     |  |          |                                     |
| Interest-earning assets:                   |  |          |                                     |  |          |                                     |
| Cash and cash equivalents                  | \$ 623                                   | \$ 20    | 12.84%                              | \$ 377                                   | \$ 22    | 23.34%                              |
| Federal funds sold                         | 974                                      | 13       | 5.11%                               | 1,376                                    | 18       | 5.13%                               |
| Investment securities                      | 76,072                                   | 1,017    | 5.35%                               | 50,790                                   | 638      | 5.02%                               |
| Loans receivable                           | 635,288                                  | 11,758   | 7.40%                               | 611,760                                  | 10,658   | 6.97%                               |
| Total interest-earning assets              | 712,957                                  | 12,808   | 7.19%                               | 664,303                                  | 11,336   | 6.83%                               |
| Non-interest-earning assets                | 39,951                                   |          |                                     | 36,357                                   |          |                                     |
| Total assets                               | \$ 752,908                               |          |                                     | \$ 700,660                               |          |                                     |
| <b>Liabilities and Equity</b>              |  |          |                                     |  |          |                                     |
| Interest-bearing liabilities:              |  |          |                                     |  |          |                                     |
| Transaction accounts                       | \$ 94,503                                | \$ 453   | 1.92%                               | \$ 93,522                                | \$ 430   | 1.84%                               |
| Retail certificates of deposit             | 244,942                                  | 3,225    | 5.27%                               | 192,945                                  | 2,215    | 4.59%                               |
| Wholesale/brokered certificates of deposit | 35,441                                   | 478      | 5.39%                               | 29,408                                   | 366      | 4.98%                               |
| Total interest-bearing deposits            | 374,886                                  | 4,156    | 4.43%                               | 315,875                                  | 3,011    | 3.81%                               |
| Borrowings                                 | 292,824                                  | 3,730    | 5.10%                               | 309,355                                  | 4,028    | 5.21%                               |
| Subordinated debentures                    | 10,310                                   | 207      | 8.03%                               | 10,310                                   | 211      | 8.19%                               |
| Total borrowings                           | 303,134                                  | 3,937    | 5.20%                               | 319,665                                  | 4,239    | 5.30%                               |
| Total interest-bearing liabilities         | 678,020                                  | 8,093    | 4.77%                               | 635,540                                  | 7,250    | 4.56%                               |
| Non-interest-bearing liabilities           | 8,526                                    |          |                                     | 7,174                                    |          |                                     |
| Total liabilities                          | 686,546                                  |          |                                     | 642,714                                  |          |                                     |

|  |            |            |
|--|------------|------------|
| Equity   | 66,362     | 57,946     |
| Total liabilities and equity                                     | \$ 752,908 | \$ 700,660 |
| Net interest income  | \$ 4,715   | \$ 4,086   |
| Net interest rate spread   | 2.41%      | 2.26%      |
| Net interest margin  | 2.65%      | 2.46%      |
| Ratio of interest-earning assets to interest-bearing liabilities | 105.15%    | 104.53%    |

**Nine Months Ended  
September 30, 2007**

**Nine Months Ended  
September 30, 2006**

|  | (dollars in thousands) |          |                                     |                    |          |                                     |
|--|------------------------|----------|-------------------------------------|--------------------|----------|-------------------------------------|
|  | Average<br>Balance     | Interest | Average<br>Annualized<br>Yield/Cost | Average<br>Balance | Interest | Average<br>Annualized<br>Yield/Cost |
| <b>Assets</b>                              |                        |          |                                     |                    |          |                                     |
| Interest-earning assets:                   |                        |          |                                     |                    |          |                                     |
| Cash and cash equivalents                  | \$ 497                 | \$ 61    | 16.36%                              | \$ 620             | \$ 101   | 21.72%                              |
| Federal funds sold                         | 1,591                  | 61       | 5.14%                               | 1,108              | 39       | 4.68%                               |
| Investment securities                      | 76,439                 | 3,003    | 5.24%                               | 50,283             | 1,801    | 4.78%                               |
| Loans receivable                           | 612,911                | 33,890   | 7.37%                               | 608,574            | 30,504   | 6.68%                               |
| Total interest-earning assets              | 691,438                | 37,015   | 7.14%                               | 660,585            | 32,445   | 6.55%                               |
| Non-interest-earning assets                | 39,464                 |          |                                     | 30,001             |          |                                     |
| Total assets                               | \$ 730,902             |          |                                     | \$ 690,586         |          |                                     |
| <b>Liabilities and Equity</b>              |                        |          |                                     |                    |          |                                     |
| Interest-bearing liabilities:              |                        |          |                                     |                    |          |                                     |
| Transaction accounts                       | \$ 94,921              | \$ 1,338 | 1.88%                               | \$ 90,301          | \$ 1,191 | 1.76%                               |
| Retail certificates of deposit             | 235,623                | 8,906    | 5.04%                               | 191,620            | 6,001    | 4.18%                               |
| Wholesale/brokered certificates of deposit | 28,121                 | 1,114    | 5.28%                               | 39,002             | 1,296    | 4.43%                               |
| Total interest-bearing deposits            | 358,665                | 11,358   | 4.22%                               | 320,923            | 8,488    | 3.53%                               |
| Borrowings                                 | 295,162                | 11,324   | 5.12%                               | 298,556            | 10,429   | 4.66%                               |
| Subordinated debentures                    | 10,310                 | 617      | 7.98%                               | 10,310             | 592      | 7.66%                               |
| Total borrowings                           | 305,472                | 11,941   | 5.21%                               | 308,866            | 11,021   | 4.76%                               |
| Total interest-bearing liabilities         | 664,137                | 23,299   | 4.68%                               | 629,789            | 19,509   | 4.13%                               |

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|  |            |            |
|--|------------|------------|
| Non-interest-bearing liabilities                                 | 7,157      | 6,691      |
| Total liabilities  | 671,294    | 636,480    |
| Equity   | 59,608     | 54,106     |
| Total liabilities and equity                                     | \$ 730,902 | \$ 690,586 |
| Net interest income  | \$ 13,716  | \$ 12,936  |
| Net interest rate spread   | 2.46%      | 2.42%      |
| Net interest margin  | 2.64%      | 2.61%      |
| Ratio of interest-earning assets to interest-bearing liabilities | 104.11%    | 104.89%    |

The following table sets forth the effects of changing rates and volumes (changes in the average balances) on the Company's net interest income. Information is provided with respect to (i) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume); (ii) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate); and (iii) the net change.

|  | Three Months Ended<br>September 30, 2007<br>Compared to<br>Three Months Ended<br>September 30, 2006<br>Increase (decrease) due to |         |        | Nine Months Ended September<br>30, 2007<br>Compared to<br>Nine Months Ended September<br>30, 2006<br>Increase (decrease) due to |        |        |
|--|---|---------|--------|---|--------|--------|
|  | Rate  | Volume  | Net    | Rate  | Volume | Net    |
| (in thousands)                             |   |         |        |   |        |        |
| <b>Interest-earning assets:</b>            |   |         |        |   |        |        |
| Cash and cash equivalents                  | \$ 46   | \$ (48) | \$ (2) | \$ (12)   | \$ 37  | \$ 25  |
| Federal funds sold                         | (5)   | -       | (5)    | 45  | 9      | 54     |
| Investment securities                      | 336   | 43      | 379    | 886   | 739    | 1,625  |
| Loans receivable, net                      | 420   | 680     | 1,100  | 162   | 11,143 | 11,305 |
| Total interest-earning assets              | 797   | 675     | 1,472  | 1,081   | 11,928 | 13,009 |
| <b>Interest-bearing liabilities:</b>       |   |         |        |   |        |        |
| Transaction accounts                       | \$ 5  | \$ 18   | \$ 23  | \$ 45   | \$ 450 | \$ 495 |
| Retail certificates of deposit             | 654   | 356     | 1,010  | 1,047   | 4,000  | 5,047  |
| Wholesale/brokered certificates of deposit | 80  | 32      | 112    | (463)   | 544    | 81     |
| Borrowings                                 | (212)   | (86)    | (298)  | (97)  | 6,283  | 6,186  |
| Subordinated debentures                    | -   | (4)     | (4)    | -   | 171    | 171    |

|                                    |        |        |        |        |        |          |
|------------------------------------|--------|--------|--------|--------|--------|----------|
| Total interest-bearing liabilities | 527    | 316    | 843    | 532    | 11,448 | 11,980   |
| Change in net interest income      | \$ 270 | \$ 359 | \$ 629 | \$ 549 | \$ 480 | \$ 1,029 |

### **Provision for Loan Losses**

The provision for loan losses was \$403,000 and \$917,000 for the three and nine months ended September 30, 2007, respectively, compared to zero and \$104,000 for the same periods in 2006. The increase in the provision for the three and nine months ended September 30, 2007 is primarily due to the combination of an increase in the Bank's loan portfolio to include more business and commercial real estate loans, as well as an increase in nonperforming loans. Net charge-offs for the three and nine months ended September 30, 2007 were \$46,000 and \$13,000, respectively, compared to net recoveries of \$116,000 for the three months ended September 30, 2006 and net charge-offs of \$71,000 for the nine months ended September 30, 2006. The Bank's Loss Mitigation Department continues collection efforts on loans previously written-down and/or charged-off to maximize potential recoveries. See "Allowance for Loan Losses."

### **Noninterest Income**

Noninterest income was \$1.5 million and \$5.1 million for the three and nine months ended September 30, 2007, respectively, compared to \$2.2 million and \$4.4 million, respectively, for the same periods ended September 30, 2006. The decrease in the current three month period compared to the same period in the prior year is primarily due to a decrease in gains from loan sales of \$492,000. The increase in noninterest income for the nine month period is primarily due to an increase in gains from loan sales of \$713,000 compared to the same period in 2006.

### **Noninterest Expense**

Noninterest expenses were \$4.4 million and \$13.1 million for the three and nine months ended September 30, 2007, respectively, compared to \$3.9 million and \$11.3 million for the same periods ended September 30, 2006. The increases in noninterest expense for the three and nine months was primarily the result of increases in compensation and benefits expense of \$327,000 and \$1.1 million, respectively, attributable primarily to the Bank's branch expansion and the hiring of additional business bankers. The number of employees at the Bank grew from 105 at September 30, 2006 to 114 at September 30, 2007.

### **Provision for Income Taxes**

The Company had a tax provision for the three and nine months ended September 30, 2007 of \$574,000 and \$1.8 million, respectively. For the three month period a year earlier, the Company had a tax provision of \$845,000 and for the nine month period it had a tax benefit of \$302,000. For the nine month period ending September 30, 2006 the Company benefited from a reduction in its valuation allowance for deferred taxes by \$2.4 million. The Company's valuation allowance for deferred taxes was zero at September 30, 2007, as the deferred tax assets were determined, more likely than not, to be realized based on recent earnings and management's analysis of the valuation allowance during the quarter. At September 30, 2007, the Company's effective tax rate for the most recent three and nine months periods were 40.3% and 38.1%, respectively.

### **LIQUIDITY**

The Bank's primary sources of funds are principal and interest payments on loans, deposits and borrowings. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and loan prepayments

are greatly influenced by general interest rates, economic conditions, and competition. The Bank's average liquidity ratios were 10.31% and 6.31% for the quarters ended September 30, 2007 and 2006, respectively.

The Company's cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities and financing activities. Cash flows provided by operating activities were \$462,000 for the nine months ended September 30, 2007, compared to net cash provided by operating activities of \$4.7 million for the nine months ended September 30, 2006. Net cash used in investing activities was \$54.9 million for the nine months ended September 30, 2007, compared to net cash used in investing activities of \$3.2 million for the nine months ended September 30, 2006. Net cash provided by financing activities was \$44.3 million for the nine months ended September 30, 2007, compared to net cash used in financing activities of \$2.2 million for the nine months ended September 30, 2006.

The Company's most liquid assets are unrestricted cash and short-term investments. The levels of these assets are dependent on the Company's operating, lending and investing activities during any given period. At September 30, 2007, cash and cash equivalents totaled \$6.9 million and the market-value of the Bank's investments in mortgage-backed securities, mutual funds and securities held-to-maturity totaled \$97.0 million. The Company has other sources of liquidity, if a need for additional funds arises, including the utilization of FHLB advances, Federal Funds lines, credit facilities with Salomon Brothers and Pershing, and loan sales.

As of September 30, 2007, the Bank had commitments to extend credit of \$25.7 million as compared to \$18.9 million at December 31, 2006. There were no material changes to the Company's commitments or contingent liabilities as of September 30, 2007 compared to the period ended December 31, 2006 as discussed in the notes to the audited consolidated financial statements of Pacific Premier Bancorp, Inc., for the year ended December 31, 2006 included in the Company's Annual Report on Form 10-K for such year.

## **CAPITAL RESOURCES**

The regulatory agencies require a minimum ratio of qualifying total capital to risk-adjusted assets of 8.0 percent and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4.0 percent. In addition to the risk-based guidelines, regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio, of 4.0 percent. For a bank rated in the highest of the five categories used by regulators to rate banks, the minimum leverage ratio is 3.0 percent. In addition to these uniform risk-based capital guidelines 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.

The table in "Item 1. Financial Statements - Note 3 - "Regulatory Matters" reflects the Company's and Bank's capital ratios based on the end of the period covered by this report and the regulatory requirements to be adequately capitalized and well capitalized. As of September 30, 2007, the Bank met the capital ratios required to be considered well capitalized.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Management believes that there have been no material changes in the Company's quantitative and qualitative information about market risk since December 31, 2006. For a complete discussion of the Company's quantitative and qualitative market risk, see "Item 7A. Quantitative and Qualitative Disclosure About Market Risk" in the Company's 2006 Annual Report on Form 10-K.

### **Item 4. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(c) and 15-d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date") have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report was being prepared. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to its Management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On July 3, 2007, the Bank was named as a defendant in a lawsuit, Said "Sam" Messiha v. James F. Bishay et al, filed in Orange County Superior Court. The plaintiff alleges that the reconveyance of his deed of trust securing approximately \$1.2 million was a forgery. The plaintiff is asking the Court to quiet title and declare his deed of trust to be in first lien position, which would put the Bank's \$3.1 million lien in second position. The Bank has answered the Complaint and filed a Cross-Complaint asking the court to, among other things, quiet title and impose an equitable lien against the subject property in favor of the Bank (superior to any interest Messiha may have in the property). Discovery in the lawsuit is ongoing. Management believes that it will not suffer any loss of its principal loan balance in this transaction, as the title company has accepted the tender of defense, subject to its normal reservation of rights, and the collateral value securing the loan is considered adequate.

Other than the lawsuit mentioned above and the "James Baker v. Century Financial, et al" which was discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 the Company is not involved in any legal proceedings other than those occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

### Item 1A. Risk Factors

There were no material changes to the Risk Factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

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

During the third quarter of 2007, the Corporation did not repurchase any of its shares of common stock.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

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

**PACIFIC PREMIER BANCORP, INC.,**

November 14, 2007

Date

President and Chief Executive Officer  
(principal executive officer)

By:

/s/ Steven R. Gardner  
Steven R. Gardner

November 14, 2007

Date

Executive Vice President and Chief Financial Officer  
(principal financial and accounting officer)

/s/ John Shindler

John Shindler



| <u>Exhibit No.</u> | <u>Description of Exhibit</u>  |
|--------------------|--|
| 31.1               | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| 31.2               | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                             |
| 32                 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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