PACIFIC PREMIER BANCORP INC
Form 10-K/A
April 26, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A
Amendment No. 2

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

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 No.: 0-22193

Pacific Premier Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware 33-0743196
(State of Incorporation) (I.R.S. Employer Identification No)

1600 Sunflower Ave. 2nd Floor, Costa Mesa, California 92626

(714) 431-4000

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share
(Title of class)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [__] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [__] No [X]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one).
Large accelerated filer [__] 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]

The aggregate market value of the voting stock held by non-affiliates of the registrant, i.e., persons other than directors and executive officers of the registrant, was approximately $57,356,443 and was based upon the last sales price as quoted on The NASDAQ Stock Market as of June 30, 2006, the last business day of the most recently completed 2nd fiscal quarter.

As of March 30, 2007, the Registrant had 5,213,488 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Explanatory Note

Pacific Premier Bancorp, Inc. ("Company") is filing this Amendment No. 2 on Form 10-K/A to amend its Form 10-K for the fiscal year ended December 31, 2006 filed with the Securities and Exchange Commission on April 2, 2007("Original Filing") in order to correct two amounts in Item 8, Financial Statements and Supplementary Data.

The three changes in the Financial Statements and Supplementary Data occur as follows:

In the table entitled, “PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES - CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION”, under the heading, ‘Common stock, $.01 par value; 15,000,000 shares authorized; 5,263,488 (2006) and 5,228,438 (2005) shares issued and outstanding’, the amount originally stated for December 31, 2006 as $53 now reads as $54.

The table entitled, “PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES - CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME”, changed to reflect the 2005 reclasses and the correct number for 2006. The December 31, 2006 ‘Total Stockholders’ Equity’ originally presented as $58,320 now reads as $58,038.

In ‘ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - 12. Benefit Plans’, the statement which read as, “*Directors’ Deferred Compensation Plan*—The Bank created a Directors’ Deferred Compensation Plan in September 2006 which allows directors to defer board of directors’ fees. The deferred compensation is credited with interest by the Bank at prime plus one percent and the accrued liability is payable upon retirement or resignation. The Directors’ Deferred Compensation Plan is unfunded. The Company is under no obligation to make matching contributions to the plan. As of December 31, 2006, the liability for the plan was $8,000 and the expense for 2006 was $8,000.’ now reads as, “Directors’ Deferred Compensation Plan -- The Bank created a Directors’ Deferred Compensation Plan in September 2006 which allows directors to defer board of directors’ fees. In addition, for those directors who opt out of the Long-Term Care Insurance Plan, the deferred compensation plan allows the equivalent of the insurance premium to be credited to the director’s deferred compensation account. The deferred compensation is credited with interest by the Bank at prime plus one percent and the accrued liability is payable upon retirement or resignation. The Directors’ Deferred Compensation Plan is unfunded. The Company is under no obligation to make matching contributions to the plan. As of December 31, 2006, the liability for the plan was $12,000 and the expense for 2006 was under $1,000.”

This Amendment No. 2 on Form 10-K/A does not modify or update in any way the Original Filing other than as described above.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Pacific Premier Bancorp, Inc. and Subsidiaries
Costa Mesa, California

We have audited the accompanying consolidated statements of financial condition of Pacific Premier Bancorp and Subsidiaries (the “Company”) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacific Premier Bancorp and Subsidiaries as of December 31, 2006 and 2005, and the results of its operations, changes in its stockholders' equity, and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Vavrinek, Trine, Day & Co., LLP
Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants
Rancho Cucamonga, California
April 2, 2007

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

	At December 31,	
	2006	**2005**
ASSETS		
Cash and due from banks	$ 7,028	$ 10,055
Federal funds sold	10,012	24,000
Cash and cash equivalents	17,040	34,055
Investment securities available for sale	61,816	35,850
Investment securities held to maturity:		
Federal Home Loan Bank Stock, at cost	15,328	13,945
Loans held for sale, net	795	456
Loans held for investment, net	604,304	602,937
Accrued interest receivable	3,764	3,007
Foreclosed real estate	138	211
Premises and equipment	8,622	5,984
Current income taxes	130	133
Deferred income taxes	6,992	5,188
Bank owned life insurance	10,344	-
Other assets	1,601	930
TOTAL ASSETS	$ 730,874	$ 702,696
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES:		
Deposit accounts		
Noninterest bearing	$ 33,607	$ 21,803
Interest bearing	305,842	306,133
Total Deposits	339,449	327,936
Borrowings	316,491	307,835
Subordinated debentures	10,310	10,310
Accrued expenses and other liabilities	6,586	6,073
TOTAL LIABILITIES	672,836	652,154
COMMITMENTS AND CONTINGENCIES (Note 11)	-	-
STOCKHOLDERS’ EQUITY:		
Preferred Stock, $.01 par value; 1,000,000 shares authorized; no	-	-

shares outstanding				
Common stock, $.01 par value; 15,000,000 shares authorized; 5,263,488 (2006) and 5,228,438 (2005) shares issued and outstanding		54		53
Additional paid-in capital		67,306		67,161
Accumulated deficit		(8,631)		(16,059)
Accumulated other comprehensive loss, net of tax of $483 (2006) and $428 (2005)		(691)		(613)
TOTAL STOCKHOLDERS' EQUITY		58,038		50,542
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	730,874	$	702,696

See Notes to Consolidated Financial Statements.

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

	For the Years ended December 31,					
		2006		2005		2004
INTEREST INCOME:						
Loans	$	41,294	$	31,710	$	19,719
Investment securities and other interest-earning assets		2,834		1,997		3,504
Total interest income		44,128		33,707		23,223
INTEREST EXPENSE:						
Interest-bearing deposits		11,854		8,333		5,482
Borrowings		14,348		7,616		1,995
Subordinated debentures		801		622		340
Total interest expense		27,003		16,571		7,817
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		17,125		17,136		15,406
PROVISION FOR LOAN LOSSES		531		349		705
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		16,594		16,787		14,701
NONINTEREST INCOME:						
Loan servicing fee income		1,515		1,541		616
Deposit fee income		514		480		592
Net gain from sale of loans		3,697		590		105
Net gain on Participation Contract and investment		-		-		2,368

securities			
Other income	789	1,519	565
Total noninterest income	6,515	4,130	4,246
NONINTEREST EXPENSE:			
Compensation and benefits	9,231	7,612	6,850
Premises and occupancy	2,327	1,522	1,356
Data processing and communications	385	335	310
Net loss (gain) on foreclosed real estate	39	(14)	(8)
Legal and audit	622	665	879
Marketing expenses	693	382	261
Office and postage expense	372	383	303
Other expense	1,562	1,375	1,283
Total noninterest expense	15,231	12,260	11,234
INCOME BEFORE INCOME TAX PROVISION	7,878	8,657	7,713
INCOME TAX PROVISION	450	1,436	972
NET INCOME	$ 7,428	$ 7,221	$ 6,741
EARNINGS PER SHARE:			
Basic earnings per share	$ 1.41	$ 1.37	$ 1.28
Diluted earnings per share	$ 1.11	$ 1.08	$ 1.02
WEIGHTED AVERAGE SHARES OUTSTANDING:			
Basic	5,261,897	5,256,906	5,256,334
Diluted	6,684,915	6,658,240	6,622,735

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME
(dollars in thousands)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive Income	Comprehensive Income	Total Stockholders'
	Shares	Amount	Capital	Deficit	(loss)	(Loss)	Equity
Balance at December 31, 2003	5,255,072	$ 53	$ 67,546	$ (30,021)	$ (246)		$ 37,332
Comprehensive Income							
Net income				6,741		$ 6,741	6,741

Unrealized loss on investments, net of tax of $217					(63)	(63)	(63)
Total comprehensive income						$ 6,678	
Exercise of options	3,666		18				18
Balance at December 31, 2004	5,258,738	$ 53	$ 67,564	$ (23,280)	$ (309)		$ 44,028
Comprehensive Income							
Net income				7,221		$ 7,221	7,221
Unrealized loss on investments, net of tax of $211					(304)	(304)	(304)
Total comprehensive income						$ 6,917	
Exercise of options	3,750		28				28
Repurchase of common stock	(38,550)		(442)				(442)
Issuance of restricted stock	4,500						-
Share-based compensation expense			11				11
Balance at December 31, 2005	5,228,438	$ 53	$ 67,161	$ (16,059)	$ (613)		$ 50,542
Comprehensive Income							
Net income				7,428		$ 7,428	7,428
Unrealized loss on investments, net of tax of $55					(78)	(78)	(78)
Total comprehensive income						$ 7,350	
Exercise of stock options	6,500		57				57
Issuance of restricted stock	35,050						-
Share-based compensation expense			122				122
Restricted stock vested		1	(1)				-
	(750)						-

Forfeit of restricted stock						
Retirement of common stock repurchased	(3,000)					-
Repurchase of common stock	(2,750)		(33)			(33)
Balance at December 31, 2006	5,263,488	$ 54	$ 67,306	$ (8,631)	$ (691)	$ 58,038

See Notes to Consolidated Financial Statements.

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

	For the Years ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 7,428	$ 7,221	$ 6,741
Adjustments to net income:			
Depreciation expense	532	344	446
Provision for loan losses	531	349	705
Share-based compensation expense	122	11	-
Loss on sale, provision, and write-down of foreclosed real estate	57	118	66
Loss on sale and disposal on premises and equipment	8	4	21
Net unrealized and realized loss and accretion on investment securities, residual mortgage-backed securities, and related mortgage servicing rights	126	301	333
Gain on sale of loans held for sale	(77)	-	-
Loss on sale of investment securities available for sale	-	-	42
Purchase and origination of loans held for sale	(1,083)	-	-
Proceeds from the sales of and principal payments from loans held for sale	1,749	37	41
Gain on sale of loans held for investment	(3,620)	(590)	(105)
Net accretion on Participation Contract	-	-	(1,964)

Gain on sale and termination of Participation Contract	-	-	(2,410)
Change in current and deferred income tax receivable	(1,801)	(1,660)	(711)
Increase in accrued expenses and other liabilities	513	2,574	1,510
Federal Home Loan Bank stock dividend	(734)	(423)	(90)
Income from bank owned life insurance	(344)	-	-
Increase in accrued interest receivable and other assets	(1,428)	(1,270)	(860)
Net cash provided by operating activities	1,979	7,016	3,765
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale and principal payments on loans held for investment	345,015	144,254	75,451
Purchase and origination of loans held for investment	(344,730)	(277,326)	(299,409)
Proceeds from sale and termination of residual assets of Participation Contract	-	-	8,848
Proceeds from Participation Contract	-	-	1,503
Principal payments on securities available for sale	638	-	840
Proceeds from sale of foreclosed real estate	525	259	1,125
Purchase of securities available for sale	(26,808)	-	(5,314)
Proceeds from sale or maturity of securities available for sale	-	-	7,436
Increase in premises and equipment	(3,180)	(1,114)	(381)
Proceeds from sale and disposal of premises and equipment	2	26	-
Purchase of bank owned life insurance	(10,000)	-	-
Purchase of FHLB stock	(649)	(5,133)	(5,869)
Net cash used in investing activities	(39,187)	(139,034)	(215,770)
CASH FLOW FROM FINANCING ACTIVITIES			
Net increase in deposit accounts	11,513	39,049	67,440
	15,191	(17,400)	18,400

Proceeds (payment) from other borrowings						
(Payment) proceeds from FHLB advances		(6,535)		128,835		129,400
Issuance of subordinated debentures		-		-		10,310
Repurchase of common stock		(33)		(442)		-
Proceeds from exercise of stock options		57		28		18
Net cash provided by financing activities		20,193		150,070		225,568
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(17,015)		18,052		13,563
CASH AND CASH EQUIVALENTS, beginning of year		34,055		16,003		2,440
CASH AND CASH EQUIVALENTS, end of year	$	17,040	$	34,055	$	16,003
SUPPLEMENTAL CASH FLOW DISCLOSURES:						
Interest paid	$	26,918	$	15,783	$	7,647
Income taxes paid	$	2,076	$	2,349	$	1,039
NONCASH OPERATING ACTIVITIES DURING THE PERIOD:						
Restricted stock vested	$	1	$	-	$	-
NONCASH INVESTING ACTIVITIES DURING THE PERIOD:						
Loan Transfers-Loans held for sale from held for investment	$	1,223	$	-	$	-
Loan Transfers-Loans held for investment from held for sale	$	279	$	-	$	-
Transfers from loans to foreclosed real estate	$	509	$	237	$	563

See Notes to Consolidated Financial Statements.

PACIFIC PREMIER BANCORP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Basis of Presentation and Description of Business — The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc., (the ‘‘Corporation’’) and its wholly owned subsidiaries, Pacific Premier Bank (the ‘‘Bank’’) and Pacific Premier Investment Services, Inc. (consolidated into the Bank in 2004) (collectively, the ‘‘Company’’). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation, a Delaware corporation organized in 1997, is a savings and loan holding company that owns 100% of the capital stock of the Bank, the Corporation’s principal operating subsidiary. The Bank was incorporated and commenced operations in 1983.

The Company accounts for its investments in its wholly owned special purpose entities, PPBI Statutory Trust I, (the “Trust”) using the equity method under which the subsidiaries’ net earnings are recognized in the Company’s Statement of Income and the investment in the Trust is included in Other Assets on the Company’s Balance Sheet.

The principal business of the Bank is attracting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, primarily in multi-family (apartment buildings of five units or more) and commercial real estate property loans. At December 31, 2006, the Bank had five depository branches located in the cities of Costa Mesa, Los Alamitos, San Bernardino, Seal Beach and Huntington Beach and one loan production office located in Pasadena.

Cash and cash equivalents—Cash and cash equivalents include cash on hand and due from banks. At December 31, 2006, $757,000 was allocated to cash reserves required by the Federal Reserve Board for depository institutions based on the amount of deposits held. The Bank maintains amounts due from banks that exceed federally insured limits. The Bank has not experienced any losses in such accounts.

Securities Available for Sale—Investments in debt securities that management has no immediate plan to sell, but which may be sold in the future, are valued at fair value. Realized gains and losses, based on the amortized cost of the specific security, are included in noninterest income as net gain (loss) on investment securities. Unrealized holding gains and losses, net of tax, on available for sale securities are reported as a net amount in a separate component of capital until realized.

Securities Held to Maturity—Investments in debt securities that management has the positive intent and ability to hold to maturity are reported at cost and adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Impairment of Investments—Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers i) the length of time and the extent to which the market value has been less than cost; ii) the financial condition and near-term prospects of the issuer; iii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; and iv) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

Participation Contract— The Participation Contract represented the right to receive 50% of any cash realized from three residual mortgage-backed securities. The right to receive cash flows under the Participation Contract began after the purchaser of the residual mortgage-backed securities recaptured its initial cash investment and a 15% internal rate of return. During 2004, the Company sold its share of the residual interest in the 1998-1 component of the Participation Contract and the 1997-2 and 1997-3 components of the Participation Contract were terminated early and the performing assets sold. Thus, the Participation Contract was no longer on the Company’s books at or after December

31, 2004. However, the Company is entitled to 50% of the charge-off recoveries associated with the 1997-2 and 1997-3 components of the Participation Contract. The recoveries from the 1997-2 and 1997-3 components were $171,000 and $1.0 million in the years 2006 and 2005, respectively, and are shown under Other Income.

Loans Held for Sale -- Loans held for sale, consisted of the guarantee portion of our SBA loans at December 31, 2006 and of single family loans at December 31, 2005, are carried at the lower of cost or market. Premiums paid and discounts obtained on such loans held for sale are deferred as an adjustment to the carrying value of the loans until the loans are sold. Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible. Loans are evaluated for collectability, and if appropriate, previously accrued interest is reversed.

Loans Held for Investment -- The Bank's real estate loan portfolio consists primarily of adjustable rate long-term loans secured by first trust deeds on multi-family mortgages and commercial properties and first and second trust deeds on single-family residences.

Loans held for investment are carried at amortized cost and net of deferred loan origination fees and costs and allowance for loan losses. Net deferred loan origination fees and costs on loans are amortized or accreted using the interest method over the expected lives of the loans. Amortization of deferred loan fees is discontinued for nonperforming loans. Loans held for investment are not adjusted to the lower of cost or estimated market value because it is management's intention, and the Bank has the ability, to hold these loans to maturity.

Interest on loans is credited to income as earned. Interest receivable is accrued only if deemed collectible.

The Bank considers a loan impaired when it is probable that the Bank will be unable to collect all contractual principal and interest payments under the terms of the original loan agreement. Loans are evaluated for impairment as part of the Bank’s normal internal asset review process. However, in determining when a loan is impaired, management also considers the loan documentation, current loan to value ratio and the borrower's current financial position. Included as impaired loans are all loans delinquent 90 days or more and all loans that have a specific loss allowance applied to adjust the loan to fair value. The accrual of interest on impaired loans is discontinued after a 90-day delinquent period, based upon the contractual terms of the loan, or when, in management's opinion, the borrower may be unable to meet payments as they become due. When the interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest. Where impairment is considered other than temporary, a charge-off is recorded; where impairment is considered temporary, an allowance is established. Impaired loans, which are performing under the contractual terms, are reported as performing loans, and cash payments are allocated to principal and interest in accordance with the terms of the loans.

Allowance for Loan Losses -- It is the policy of the Bank to maintain an allowance for loan losses at a level deemed appropriate by management to provide for known or inherent risks in the portfolio. Management's determination of the adequacy of the loan loss allowance is based on an evaluation of the composition of the portfolio, actual loss experience, current economic conditions, industry charge-off experience on income property loans and other relevant factors in the area in which the Bank's lending and real estate activities are based. These factors may affect the borrowers' ability to pay and the value of the underlying collateral. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance and specific allowance for identified problem loans. The formula allowance is calculated by applying loss factors to loans held for investment. The loss factors are applied according to loan program type and loan classification. The loss factors for each program type and loan classification are evaluated on a quarterly basis and are established based primarily upon the Bank’s historical loss experience and the industry charge-off experience. The unallocated allowance is based upon management's evaluation of various conditions, the effect of which is not directly measured in the determination of the formula and specific allowance. The evaluation of the inherent loss with respect to these conditions is subject to a

higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the unallocated allowance include the following conditions that existed as of the balance sheet date: (1) then-existing general economic and business conditions affecting the key lending areas of the Bank, (2) credit quality trends, (3) loan volumes and concentrations, (4) recent loss experience in particular segments of the portfolio, and (5) regulatory examination results. Various 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 additions to the allowance based on judgments different from those of management. Specific allowances are established for certain loans where management has identified significant conditions or circumstances related to a credit that management believes indicates the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance. A specific allowance is calculated by subtracting the current market value less estimated selling and holding costs from the loan balance. Specific loss allowances are established if the fair value of the loan or the collateral is estimated to be less than the gross carrying value of the loan. At December 31, 2006, the Bank had $60,000 in a specific allowance on loans 90 days or more past due.

Although management uses the best information available to make these estimates, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions that may be beyond the Bank's control.

Foreclosed Real Estate -- Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at the lesser of fair value less cost to sell or the balance of the loan at the date of foreclosure through a charge to the allowance for estimated loan losses. It is the policy of the Bank to obtain an appraisal and/or market valuation on all real estate owned at the time of possession. After foreclosure, valuations are periodically performed by management and additional write downs are charged to operations if the carrying value of a property exceeds its fair value less estimated costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net loss on foreclosed real estate in the consolidated statement of operations.

Premises and Equipment -- Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which range from 40 years for buildings, the remaining term of the lease for leasehold improvements, seven years for furniture, fixtures and equipment, and three years for computer and telecommunication equipment.

The Company periodically evaluates the recoverability of long-lived assets, such as premises and equipment, to ensure the carrying value has not been impaired.

Income Taxes--Deferred tax assets and liabilities are recorded for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the asset liability method. In estimating future tax consequences, all expected future events other than enactments of changes in the tax law or rates are considered. In the years 2000 and 2001, management deemed it necessary to establish a valuation allowance totaling $11.6 million on the deferred tax assets. With the recapitalization in the year 2002 and the return to profitability, management began to reduce the valuation allowance as it appeared that it was more likely than not that the deferred tax assets would be realized. During 2006, the Company reversed the remaining valuation allowance of $2.4 million, 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. As of December 31, 2006, the valuation allowance was zero.

Bank owned life insurance -- Bank owned life insurance is accounted for using the cash surrender value method and is recorded at its realizable value. The change in the net asset value is included in other assets and other non-interest income.

Presentation of Cash Flows -- For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks.

Advertising Costs -- The Company expenses the costs of advertising in the period incurred.

Use of Estimates -- The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of foreclosed real estate and deferred tax assets.

Comprehensive Income -- Beginning in 1998, The Company adopted Statement of Financial Accounting Standard (SFAS) No.130, "*Reporting Comprehensive Income*", which requires the disclosure of comprehensive income and its components. Changes in unrealized gain (loss) on available-for-sale securities net of income taxes is the only component of accumulated other comprehensive income for the Company.

Fair Value of Financial Instruments -- SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" ("SFAS No. 107") specifies the disclosure of the estimated fair value of financial instruments. The Company's estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies.

However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the balance sheet date and, therefore, current estimates of fair value may differ significantly from the amounts presented in the accompanying notes.

Change in accounting principle - Stock-Based Compensation -- Effective January 1, 2006, we adopted the provisions of SFAS No. 123R, *"share-based payments,"* under the modified prospective method. Accordingly, compensation expense for stock option awards is measured at grant date fair value and amortized over the requisite service period of the award. Compensation expense related to restricted stock awards is based on the fair value of the underlying stock on the award date and is recognized over the vesting period by the straight-line method. The impact of adopting SFAS No. 123R is discussed in Note #12 to the Consolidated Financial Statements.

For the years ended December 31, 2005 and 2004, we accounted for share-based payments in accordance with APB No. 25. Had we recorded compensation expense for our stock option plan consistent with the method of SFAS No. 123, our net income and EPS would have been reduced to the following pro forma amounts:

	2005	**2004**
	(dollars in thousands, except per share data)	
Net income to common stockholders:		
As reported	$ 7,221	$ 6,741
Stock-based compensation that would have been reported using the fair value method of	-	(418)

SFAS 123				
Pro forma	$	7,221	$	6,323
Basic earnings per share:				
As reported	$	1.37	$	1.28
Pro forma	$	1.37	$	1.20
Diluted earnings per share:				
As reported	$	1.08	$	1.02
Pro forma	$	1.08	$	0.95

Recent Accounting Pronouncements

In December 2004, the FASB SFAS No. 123R which is a revision to SFAS No. 123, and which addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. This statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion ("APB") No. 25 ("APB No. 25"), and generally requires instead that such transactions be accounted for using a fair-value-based method. The statement does not change the accounting in SFAS No. 123, for transactions in which an enterprise exchanges its equity instruments for services of parties other than employees or the accounting for employee stock ownership plans, which are subject to SOP 93-6.

The phase-in period for this statement, as amended April 14, 2005 by the SEC, began in the first quarter of 2006. Based on the SEC's phase-in period, we adopted SFAS No. 123R on January 1, 2006 and account for share-based compensation based on this new pronouncement. We compute compensation expense for stock options using the Black-Scholes valuation model and utilize the modified prospective method under SFAS No. 123R.

In March 2005, the SEC issued SAB No. 107, which provided interpretative guidance on SFAS No. 123R valuation method assumptions used in valuation models and the interaction of SFAS No. 123R with existing guidance.

In May 2005, FASB issued SFAS No. 154. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154, effective January 1, 2006, did not have a material impact on our financial condition or operating results.

In February 2006, FASB issued SFAS No. 155, an amendment of SFAS No. 133 and SFAS No. 140. The provisions of this statement allow financial instruments that have embedded derivatives to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The new statement also amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The provisions of this standard are effective as of the beginning of our fiscal year 2007. We do not expect the adoption of SFAS No. 155 to have a material impact on our financial condition or operating results.

In March 2006, FASB issued SFAS No. 156. The provisions of this statement require mortgage servicing rights to be initially valued at fair value. SFAS No. 156 also allows servicers to choose one of the following measurement methods subsequent to the initial fair value measurement: (1) the "fair-value-measurement method", which measures servicing rights at fair value at each reporting date, with changes in fair value reported in earnings or (2) the "amortization method", which allows continued amortization of servicing rights over the period of estimated net

servicing income or loss, consistent with the existing requirements of SFAS No. 140. The provisions of this standard are effective as of the beginning of our fiscal year 2007. We currently use the amortization method to account for our servicing rights, and we expect to continue this practice after implementing SFAS No. 156. We do not expect the adoption of SFAS No. 156 to have a material impact on our financial condition or operating results.

In June 2006, the FASB issued FIN No. 48. This interpretation clarifies the accounting for uncertainty in income taxes in an entity's financial statements, in accordance with FASB Statement No. 109, "*Accounting for Income Taxes*" by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We do not expect FIN No. 48, which is effective for fiscal years beginning after December 15, 2006, to have a material impact on our financial condition or operating results.

In September 2006, the FASB issued SFAS No. 157, 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; however Management is evaluating the financial impact and may choose to adopt SFAS No. 157 effective January 1, 2007.

In September 2006, the FASB issued SFAS No. 158, which will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The standard will make it easier for investors, employees, retirees and others to understand and assess an employer's financial position and its ability to fulfill the obligations under its benefit plans. Specifically, SFAS No. 158 requires an employer to (a) recognize in its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity. The adoption of SFAS No. 158 did not have a material impact on our financial condition or operating results. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of December 31, 2006.

In September 2006, the SEC staff issued SAB No. 108, which expresses the SEC staff's views regarding the process of quantifying financial statement misstatements. SAB No. 108 was issued primarily to address diversity in the practice of quantifying financial statement misstatements and the potential under current practice to build up improper amounts on the balance sheet. This new guidance applies when uncorrected misstatements affect the current year. To eliminate diversity in practice, SAB No. 108 requires registrants to quantify misstatements using both the rollover and iron curtain methods, and then determine if either method results in a material error, as quantified in the existing guidance of Staff Accounting Bulletin No. 99 "*Materiality*". SAB No. 108 is effective for errors identified during the year ended December 31, 2006. The adoption of SAB No. 108 did not have a material impact on our financial condition or operating results.

In February 2007, the FASB issued SFAS No. 159, which provides companies with an option to report selected financial assets and liabilities at fair value. This statement requires companies to display on the face of the balance

sheet the fair value of those assets and liabilities for which they have chosen to use fair value. This standard also requires companies to provide additional information that will help investors and other users of financial statements to easily understand the effect on earnings of a company's choice to use fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of our fiscal year beginning January 1, 2008. It is required that we adopt SFAS No. 159 on January 1, 2008; however Management is evaluating the financial impact and may choose to adopt SFAS No. 159 effective January 1, 2007.

Reclassifications -Certain amounts reflected in the 2005 and 2004 consolidated financial statements have been reclassified where practicable, to conform to the presentation for 2006. 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.

	With reclassifications For Year Ended December 31, 2005	**Originally presented For Year Ended December 31, 2005**	**Net Change**
Other assets	$ 930	$ 967	$ (37)
All other assets	701,766	701,766	-
TOTAL ASSETS	$ 702,696	$ 702,733	$ (37)
Additional paid-in capital	$ 67,161	$ 67,198	$ (37)
All other equity items	(16,619)	(16,619)	-
TOTAL STOCKHOLDERS' EQUITY	$ 50,542	$ 50,579	$ (37)

The following tables reflect the reclassification on the Company's consolidated statement of stockholders' equity of restricted shares issued from repurchase of common stock to issuance of restricted stock.

Common Stock Shares	**With reclassifications For Year Ended December 31, 2005**	**Originally presented For Year Ended December 31, 2005**	**Net Change**
Repurchase of common stock	(38,550)	(34,050)	(4,500)
Issuance of restricted stock	4,500	-	4,500
Exercise of stock options	3,750	3,750	-
Total activity	(30,300)	(30,300)	-

Common Stock Amount	**With reclassifications For Year Ended December 31, 2005**	**Originally presented For Year Ended December 31, 2005**	**Net Change**

Repurchase of common stock	(442)	(394)	(48)
Share-based compensation expense	11	-	11
Exercise of stock options	28	28	0
Total activity	(403)	(366)	(37)

The following table reflects the reclassification on the statement of Company's cash flows of repurchase of common stock from net cash used in investing activities to net cash provided by operating activities and share-based compensation expense and increase in accrued interest and other assets from repurchase of common stock.

	With reclassifications For Year Ended December 31, 2005	**Originally presented For Year Ended December 31, 2005**	**Net Change**
Share-based compensation expense	$ 11	$ -	$ 11
Increase in accrued interest receivable and other assets	(1,270)	(1,307)	37
All other operating activities	8,275	8,275	-
Net cash provided by operating activities	$ 7,016	$ 6,968	$ 48
Repurchase of common stock	$ -	$ (394)	$ 394
All other investing activities	(139,034)	(139,034)	-
Net cash used in investing activities	$ (139,034)	$ (139,428)	$ 394
Repurchase of common stock	$ (442)	$ -	$ (442)
All other financing activities	150,512	150,512	-
Net cash used in financing activities	$ 150,070	$ 150,512	$ (442)

The following table reflects the reclassification on the Corporation's balance sheet of the issuance of restricted stock from accrued expenses and other liabilities to total stockholders' equity.

	With reclassifications For Year Ended December 31, 2005	**Originally presented For Year Ended December 31, 2005**	**Net Change**
Accrued expenses and other liabilities	$ 345	$ 308	$ 37

All other liabilities	10,310	10,310	-
TOTAL LIABILITIES	$ 10,655	$ 10,618	$ 37
TOTAL STOCKHOLDERS' EQUITY	$ 50,542	$ 50,579	$ (37)

The following table reflects the reclassification on the statement of Corporation's cash flows of repurchase of common stock from net cash used in financing activities to net cash provided by operating activities and share-based compensation expense and increase (decrease) in accrued expenses and other liabilities from repurchase of common stock.

	With reclassifications For Year Ended December 31, 2005	**Originally presented For Year Ended December 31, 2005**	**Net Change**
Share-based compensation expense	$ 11	$ -	$ 11
Increase (decrease) in accrued expenses and other liabilities	91	54	37
All other operating activities	226	226	-
Net cash provided by operating activities	$ 328	$ 280	$ 48
Purchase of common stock	$ (442)	$ (394)	$ (48)
All other financing activities	28	28	-
Net cash used in financing activities	$ (414)	$ (366)	$ (48)

2. Regulatory Capital Requirements and Other Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). At periodic intervals, both the Office of Thrift Supervision and the Federal Deposit Insurance Corporation routinely examine the Bank's financial statements as part of their legally prescribed oversight of the savings and loan industry. Based on these examinations, the regulators can direct that the Bank's financial statements be adjusted in accordance with their findings.

As of the most recent formal notification form the OTS, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. The Bank's actual capital amounts and ratios are presented in the

table below:

	Actual		To be adequately capitalized		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2006			(dollars in thousands)			
Total Capital (to risk-weighted assets)	$ 64,124	11.55%	$ 44,407	8.00%	$ 55,508	10.00%
Tier 1 Capital (to adjusted tangible assets)	60,747	8.38%	29,012	4.00%	36,265	5.00%
Tier 1 Capital (to risk-weighted assets)	60,747	10.94%	22,203	4.00%	33,305	6.00%

	Actual		To be adequately capitalized		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2005			(dollars in thousands)			
Total Capital (to risk-weighted assets)	$ 57,135	11.78%	$ 38,793	8.00%	$ 48,492	10.00%
Tier 1 Capital (to adjusted tangible assets)	54,376	7.79%	27,935	4.00%	34,919	5.00%
Tier 1 Capital (to risk-weighted assets)	54,376	11.21%	19,397	4.00%	29,095	6.00%

3. Investment Securities

The amortized cost and estimated fair value of securities were as follows at December 31:

	December 31, 2006			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
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

	December 31, 2005							
	Amortized Cost		Unrealized Gain		Unrealized Loss		Estimated Fair Value	
	(in thousands)							
Securities available for sale:								
Mortgage-backed securities	$	9,171	$	-	$	(112)	$	9,059
Mutual Funds		27,719		-		(928)		26,791
Total securities available for sale	$	36,890	$	-	$	(1,040)	$	35,850
Securities held to maturity:								
FHLB Stock	$	13,945	$	-	$	-	$	13,945
Total securities held to maturity	$	13,945	$	-	$	-	$	13,945
Total securities	$	50,835	$	-	$	(1,040)	$	49,795

The weighted average interest rates on total investment securities were 4.98% and 4.05% at December 31, 2006 and 2005, respectively.

At December 31, 2006, $35.1 million in mortgage-backed securities mature in excess of 10 years, no mortgage-backed securities mature in 5 to 10 years, $26.8 million in mutual funds are redeemable with a one-day notice unless pledged for borrowings and the FHLB stock is redeemable five years after FHLB receives written notice from the Bank and only if the Bank has excess stock at the time of redemption. At December 31, 2006, the mutual funds were pledged as collateral on a credit line.

The table below shows the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous loss position, at December 31, 2006. 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.

	December 31, 2006											
	Less than 12 months				12 months or Longer				Total			
	Fair Value		Gross Unrealized Holding Losses		Fair Value		Gross Unrealized Holding Losses		Fair Value		Gross Unrealized Holding Losses	
	(in thousands)											
Mortgage-backed securities	$	21,006	$	(113)	$	8,512	$	(89)	$	29,518	$	(202)
Mutual Funds		-		-		26,735		(984)		26,735		(984)

Total	$ 21,006	$ (113)	$ 35,247	$ (1,073)	$ 56,253	$ (1,186)

The table below shows the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005.

	December 31, 2005					
	Less than 12 months		12 months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(in thousands)					
Mortgage-backed securities	$ -	$ -	$ 9,059	$ (112)	$ 9,059	$ (112)
Mutual Funds	-	-	26,791	(928)	26,791	(928)
Total	$ -	$ -	$ 35,850	$ (1,040)	$ 35,850	$ (1,040)

4. Loans Held for Investment

Loans held for investment consisted of the following at December 31:

	2006	2005
Real estate	(in thousands)	
Residential:		
One-to-four family	$ 12,825	$ 16,079
Multi-family	357,275	459,714
Commercial	169,752	123,364
Other loans:		
Loans secured by deposit accounts	20	-
Commercial owner occupied	39,629	2,062
Commercial and industrial	22,762	3,248
SBA	4,517	-
Unsecured consumer loans	43	27
Total gross loans held for investment	606,823	604,494
Plus (less):		
Deferred loan origination costs-net	1,125	1,618
Discounts	(101)	(125)
Allowance for estimated loan losses	(3,543)	(3,050)
Loans held for investment, net	$ 604,304	$ 602,937

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

The Bank grants residential and commercial loans held for investment to customers located primarily in Southern California. Consequently, a borrower's ability to repay may be impacted by economic factors in the region.

The following summarizes activity in the allowance for loan losses for the year ended December 31:

	2006	2005	2004
		(in thousands)	
Balance, beginning of year	$ 3,050	$ 2,626	$ 1,984
Provision for loan losses	531	349	705
Recoveries	228	291	337
Charge-offs	(266)	(216)	(400)
Balance, end of year	$ 3,543	$ 3,050	$ 2,626

It is the Bank's policy not to accrue interest on loans 90 days or more past due. The Company had nonaccrual and nonperforming loans at December 31, 2006, 2005, and 2004 of $634,000, $1.7 million, and $2.4 million, respectively. If such loans had been performing in accordance with their original terms, the Bank would have recorded additional loan interest income of $106,000, $310,000 and $317,000 for a total of $41.4 million, $32.0 million, and $20.0 million, respectively, instead of loan interest income actually recognized of $41.3 million, $31.7 million, and $19.7 million, respectively, for the years ended December 31, 2006, 2005, and 2004.

The following summarizes information related to the Bank's impaired loans at December 31:

	2006	2005	2004
	(in thousands)		
Total impaired loans	$ 659	$ 1,750	$ 2,258
Related general reserves on impaired loans	73	60	85
Related specific reserves on impaired loans	60	291	299
Average impaired loans for the year	889	1,657	2,216
Total interest income recognized on impaired loans	43	82	120

The Bank is not committed to lend additional funds to debtors whose loans have been modified.

The Bank is subject to numerous lending-related regulations. Under applicable laws and regulations, the Bank may not make real estate loans to one borrower in excess of 15% of its unimpaired capital and surplus except for loans not to exceed $500,000. This 15% limitation results in a dollar limitation of $9.7 million at December 31, 2006. At December 31, 2006, the Bank's largest aggregate outstanding balance of loans-to-one borrower was $8.7 million.

As of December 31, 2006, Total loans and participations serviced for others were $96.6 million and $44.9 million as of December 31, 2006 and 2005, respectively.

The Bank made two loans to the partnership of McKennon Wilson & Morgan LLP in March of 2006. One loan is a fixed rate commercial loan at the rate of 7.00% and the other is a commercial line of credit with a variable rate of Prime + 75 basis points (9.00% as December 31, 2006). The balances of the loans were $67,000 and $175,000, respectively, as of December 31, 2006. Both loans were made at terms that were available to the general public at the time of origination. It is the belief of management that these loans neither involve more than the normal risk of collectability nor present other unfavorable features. There were no loans to or activity with directors and executive officers during the year ended December 31, 2005. The following table shows the activity of loans to Officers and Directors for the date specified:

	2006 (in thousands)
Balance, beginning of year	$ -
Originations/advances	555
Principal payments	313
Balance, end of year	$ 242

5. Premises and Equipment

Premises and equipment consisted of the following at December 31:

	2006	2005
	(in thousands)	
Land	$ 1,410	$ 1,410
Premises	5,452	4,338
Leasehold improvements	1,246	1,146
Furniture, fixtures and equipment	3,688	2,343
Automobiles	82	25
Subtotal	11,878	9,262
Less: accumulated depreciation	(3,256)	(3,278)
Total	$ 8,622	$ 5,984

Depreciation expense was $532,000, $344,000, and $446,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

6. Foreclosed Real Estate

The following summarizes the activity in the real estate owned, net of the allowance, for the years ended December 31:

	2006	2005
	(in thousands)	
Balance, beginning of year	$ 211	$ 351
Additions – foreclosures	509	237
Sales	(525)	(259)
Write downs	(57)	(118)
Balance, end of year	$ 138	$ 211

7. Deposit Accounts

Deposit accounts and weighted average interest rates consisted of the following at December 31:

	2006 Balance	Weighted Average Interest Rate	2005 Balance	Weighted Average Interest Rate
	(dollars in thousands)			
Transaction accounts				
Checking accounts:				
Noninterest-bearing	$ 33,607	0.00%	$ 21,803	0.00%
Interest-bearing	21,654	1.41%	24,248	1.16%
Passbook accounts	2,109	0.75%	3,410	0.23%
Money market accounts	39,391	3.64%	32,355	2.96%
Total transaction accounts	96,761	1.55%	81,816	1.55%
Certificate accounts:				
Under $100,000	122,830	4.88%	117,822	3.72%
$100,000 and over	119,858	5.07%	128,298	3.72%
Total certificate accounts	242,688	4.97%	246,120	3.72%
Total Deposits	$ 339,449	4.07%	$ 327,936	3.17%

The aggregate annual maturities of certificate accounts at December 31 are approximately as follows:

	2006	2005
	(in thousands)	
Within one year	$ 228,250	$ 219,857
One to two years	8,936	15,549
Two to three years	3,574	6,067
Three to four years	913	3,023
Four to five years	328	888
Thereafter	687	736
Total	$ 242,688	$ 246,120

Interest expense on deposit accounts for the years ended December 31 is summarized as follows:

	2006	2005	2004
	(in thousands)		
Checking accounts	$ 241	$ 307	$ 327
Passbook accounts	14	9	12
Money market accounts	1,415	869	473
Certificate accounts	10,184	7,148	4,670
Total	$ 11,854	$ 8,333	$ 5,482

8. Advances from Federal Home Loan Bank and Other Borrowings

The Bank had $300.3 million and $296.8 million borrowings with the FHLB at of December 31, 2006 and 2005, respectively. Advances from the FHLB and/or the line of credit are collateralized by certain real estate loans with an aggregate principal balance of $480.2 million and $456.3 million, and FHLB stock of $15.3 million and $13.9 million at December 31, 2006 and 2005, respectively.

The following table summarizes activities in advances from the FHLB for the periods indicated:

	Years Ended December 31,		
	2006	2005	2004
	(dollars in thousands)		
Average balance outstanding	$ 297,441	$ 234,243	$ 95,601
Maximum amount outstanding at any month-end during the year	319,200	296,835	178,000
Balance outstanding at end of year	300,300	296,835	178,000
Weighted average interest rate during the year	4.79%	3.12%	1.99%

The maturities of FHLB advances are as follows:

	December 31, 2006	
	Amount	Weighted Average Interest Rate
	(dollars in thousands)	
Due in one year	$ 150,300	5.48%
Due in two years	150,000	4.94%
Total	$ 300,300	5.21%

In March 2004, the Bank established a $100.0 million credit facility which is secured by investments pledged to Salomon Brothers. At December 31, 2006, the Bank had borrowed $10.0 million against the line. In addition, the Bank has established a credit facility, secured by the mutual funds pledged to Pershing LLC. The Bank is able to borrow up to 70% of the valuation of the pledged mutual funds at a cost of the current federal funds rate plus 75 basis points. At December 31, 2006, The Bank had borrowed $1.0 million and $1.0 million against the line as of December 31, 2006 and 2005, respectively.

At December 31, 2006, the Bank had unsecured lines of credit with four banks for a total amount of $30.0 million. Total borrowings against these lines were $5.0 million at December 31, 2006 and $10.0 million at December 31, 2005. The following summarizes activities in other borrowings:

	Year Ended December 31,	
	2006	2005
	(dollars in thousands)	
Average balance outstanding	$ 1,833	$ 9,870

Maximum amount outstanding at any month-end during the year	16,191	35,500
Balance outstanding at end of year	16,191	11,000
Weighted average interest rate during the year	5.86%	3.16%

9. Subordinated Debentures

On March 25, 2004 the Corporation issued $10,310,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Debt Securities”) to PPBI Trust I, a statutory trust created under the laws of the State of Delaware. The Debt Securities are subordinated to effectively all borrowings of the Corporation and are due and payable on April 7, 2034. Interest is payable quarterly on the Debt Securities at three-month LIBOR plus 2.75% for a rate of 8.12% and 6.90% as of December 31, 2006 and 2005, respectively. The Debt Securities may be redeemed, in part or whole, on or after April 7, 2009 at the option of the Corporation, at par. The Debt Securities can also be redeemed at par if certain events occur that impact the tax treatment or the capital treatment of the issuance. The Corporation also purchased a 3% minority interest totaling $310,000 in PPBI Trust I. The balance of the equity of PPBI Trust I is comprised of mandatorily redeemable preferred securities (“Trust Preferred Securities”) and is included in other assets. PPBI Trust I sold $10,000,000 of Trust Preferred Securities to investors in a private offering. The Corporation contributed $5.0 million of the proceeds of the Debt Securities offering to the Bank as additional capital to support the planned growth of the Bank.

10. Income Taxes

Income taxes for the year ended December 31 consisted of the following:

	2006	2005	2004
		(in thousands)	
Current tax provision:			
Federal	$ 2,419	$ 2,380	$ 823
State	(220)	560	455
Total current tax provision	2,199	2,940	1,278
Deferred tax benefit:			
Federal	(1,799)	(1,090)	(276)
State	50	(414)	(30)
Total deferred tax benefit	(1,749)	(1,504)	(306)
Total income tax provision	$ 450	$ 1,436	$ 972

A reconciliation from statutory federal income taxes to the Company's effective income taxes for the year ended December 31 is as follows:

	At December 31,		
	2006	2005	2004
		(in thousands)	
Statutory federal taxes	$ 2,447	$ 2,680	$ 2,360
	638	680	771

State taxes, net of federal income tax benefit			
Change in valuation allowance	(2,424)	(1,605)	(1,426)
Other	(211)	(319)	(733)
Total	$ 450	$ 1,436	$ 972

Deferred tax assets (liabilities) were comprised of the following at December 31:

	2006	2005
	(in thousands)	
Deferred tax assets:		
Accrued expenses	$ 111	$ 91
Depreciation	263	284
Net operating loss	5,940	6,358
Allowance for loan losses	1,592	1,368
Loans held for sale	-	13
Unrealized losses on available for sale securities	483	428
Other	57	94
Total deferred tax assets	8,446	8,636
Deferred tax liabilities:		
State taxes	(146)	(163)
Federal Home Loan Bank Stock	(939)	(587)
Restricted stock	(136)	-
Other	(233)	(274)
Total deferred tax liabilities	(1,454)	(1,024)
Total deferred tax	6,992	7,612
Less valuation allowance	-	(2,424)
Net deferred tax asset	$ 6,992	$ 5,188

At December 31, 2006, there was no valuation allowance against the net operating loss deferred tax asset. The Company has a net operating loss carryforward of approximately $15.4 million for federal income tax purposes which expires in 2023. In addition, the Bank has a net operating loss carryforward of approximately $6.0 million for state franchise tax purposes, which expires in 2013. With the completion of the secondary offering in October 2003, the Company had an "ownership change" as defined under Internal Revenue Code Section 382. Under Section 382, which has also been adopted under California law, if during any three-year period there is more than a 50 percentage point change in the ownership of the Company, then the future use of any pre-change net operating losses or built-in losses of the Company may be subject to an annual percentage limitation based on the value of the company at the ownership change date. The ownership change reduced the Federal and State net operating loss carryforward by $5.8 million and $3.3 million, respectively. The annual usable net operating loss carryforward going forward is approximately $932,000 per year.

11. Commitments, Contingencies and Concentrations of Risk

Legal Proceedings - In February 2004, the Bank was named in a class action lawsuit titled, "James Baker v. Century Financial, et al", alleging various violations of Missouri's Second Mortgage Loans Act by charging and receiving fees and costs that were either wholly prohibited by or in excess of that allowed by the Act relating to origination fees, interest rates, and other charges. The class action lawsuit was filed in the Circuit Court of Clay County, Missouri. The

complaint seeks restitution of all improperly collected charges and interest plus the right to rescind the mortgage loans or a right to offset any illegal collected charges and interest against the principal amounts due on the loans. The Bank's motion for dismissal due to limitations was denied by the trial court without comment in 2005 and our motion to dismiss due to federal preemption of state law because the Bank is a federal savings bank was denied in August 2006. The lawsuit is now in the preliminary phase of discovery. The Company intends to appeal the trial court's ruling on the limitations as the loans in questions were originated no later than 1997 and Missouri has a six year statute of limitations.

The Company and the Bank are not involved in any other pending legal proceedings other than legal proceedings 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 or the Bank.

Lease Commitments -- The Company leases a portion of its facilities from non-affiliates under operating leases expiring at various dates through 2007. The following schedule shows the minimum annual lease payments, excluding any renewals and extensions, property taxes, and other operating expenses, due under these agreements (in thousands):

Year ending December 31,	
2007	$ 625
2008	603
2009	621
2010	629
2011	642
Thereafter	3,476
Total	$ 6,596

Rental expense under all operating leases totaled $677,000, $429,000, and $274,000 for the years ended December 31, 2006, 2005, and 2004, respectively.

Employment Agreements -- The Corporation and the Bank have negotiated an employment agreement with their Chief Executive Officer. This agreement provides for the payment of a base salary, a bonus based upon the individual performance and overall performance of the Bank and Company, provides a vehicle for the use of the CEO, and the payment of severance benefits upon termination.

Availability of Funding Sources -- The Company funds substantially all of the loans, which it originates or purchases through deposits, internally generated funds, or borrowings. The Company competes for deposits primarily on the basis of rates, and, as a consequence, the Company could experience difficulties in attracting deposits to fund its operations if the Company does not continue to offer deposit rates at levels that are competitive with other financial institutions. To the extent that the Company is not able to maintain its currently available funding sources or to access new funding sources, it would have to curtail its loan production activities or sell loans earlier than is optimal. Any such event could have a material adverse effect on the Company's results of operations, financial condition and cash flows.

12. Benefit Plans

401(k) Plan -- The Bank maintains an Employee Savings Plan (the 401(k) Plan) which qualifies under section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, employees may contribute from 1% to 50% of their compensation. In 2004, 2005 and 2006, the Bank matched 100% of contributions for the first three percent contributed and 50% on the next two percent contributed. The amounts of contributions made to the 401(k) Plan by the Bank were

approximately $155,000, $143,000, and $138,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Pacific Premier Bancorp, Inc. 2004 Long-Term Incentive Plan (the Plan) -- The Plan was approved by the Shareholders in May 2004. The Plan authorizes the granting of options equal to 525,500 shares of the common stock for issuances to executives, key employees, officers, and directors. The Plan will be in effect for a period of ten years from February 25, 2004, the date the Plan was adopted. Options granted under the Plan will be made at an exercise price equal to the fair market value of the stock on the date of grant. Awards granted to officers and employees may include incentive stock options, nonstatutory stock options and limited rights, which are exercisable only upon a change in control of the Company. The options granted pursuant to the Plan originally vested at a rate of 33.3% per year. On March 4, 2005 the Company chose to accelerate the vesting on all outstanding options. The following is a summary of activity in the Company’s 2000 Stock Option Plan and the Company’s 2004 Stock Option Plan for the years ended December 31, 2006, 2005, and 2004, respectively.

The total intrinsic value of options exercised in 2006 was $39,000. The weighted average remaining contractual term and aggregate intrinsic value of options outstanding was 6.5 years and $1.6 million at December 31, 2006.

	2006		**2005**		**2004**	
	Shares	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**	**Shares**	**Weighted average exercise price**
Options outstanding at the beginning of the year	376,147	$ 11.43	387,347	$ 11.40	183,122	$ 10.86
Granted	-	-	-	-	212,225	11.69
Exercised	(6,500)	8.79	(3,750)	7.44	(3,666)	5.05
Forfeited & Expired	(34,422)	13.65	(7,450)	11.70	(4,334)	6.93
Options outstanding at the end of the year	335,225	$ 11.26	376,147	$ 11.43	387,347	$ 11.40
Options exercisable at the end of the year						