FIRST PACTRUST BANCORP INC
Form 10-Q
August 03, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

000-49806

(Commission File Number)

Maryland

(State of incorporation)

04-3639825

(IRS Employer Identification No.)

610 Bay Boulevard, Chula Vista, California

(Address of Principal Executive Offices)

91910

(ZIP Code)

(619) 691-1519

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant 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 x Non-accelerated Filer ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date.

As of July 16, 2007 the Registrant had 4,403,783 outstanding shares of common stock.

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Form 10-Q Quarterly Report

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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This report contains certain forward-looking statements within the meaning of Section 27a of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. First PacTrust Bancorp, Inc. (the Company) and Pacific Trust Bank (the Bank) intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, as amended, and are including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company and the Bank, are generally identifiable by use of the words such as believe, expect, intend, anticipate, estimate, project, or similar expressions. The ability Company and the Bank to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on the operations and future prospects of the Company, the Bank, and the Bank s wholly owned subsidiaries include, but are not limited to, changes in: interest rates; the economic health of the local real estate market; general economic conditions; legislative/regulatory provisions; monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; the quality or composition of the loan and securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in the Bank s market area; and impact of new accounting pronouncements. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

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ITEM 1 FINANCIAL STATEMENTS

First PacTrust Bancorp, Inc.

Consolidated Statements of Financial Condition

(In thousands of dollars except share data)

(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 6,593	$ 6,934
Federal funds sold	2,105	245
Interest-bearing deposits	7,427	6,816
Total cash and cash equivalents	16,125	13,995
Interest-bearing deposit in other financial institution	992	992
Securities available-for-sale	13,976	13,989
Federal Home Loan Bank stock, at cost	6,660	9,794
Loans receivable, net of allowance of $4,571 at June 30, 2007 and $4,670 at December 31, 2006	701,627	740,044
Accrued interest receivable	3,481	3,958
Premises and equipment, net	4,917	4,910
Bank owned life insurance investment	16,693	16,349
Other assets	4,681	4,312
Total assets	$ 769,152	$ 808,343
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$ 15,776	$ 14,362
Interest-bearing	567,207	556,181
Total deposits	582,983	570,543
Advances from Federal Home Loan Bank	97,500	151,200
Accrued expenses and other liabilities	5,227	4,859
Total liabilities	685,710	726,602
SHAREHOLDERS EQUITY		
Preferred stock, $.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding		
Common stock, $.01 par value per share, 20,000,000 shares authorized; 5,445,000 shares issued	54	54
Additional paid-in capital	66,847	65,940
Retained earnings	42,623	41,993
Treasury stock, at cost (June 30, 2007 1,041,217 shares, December 31, 2006 1,039,246 shares)	(23,592)	(23,515)
Unearned Employee Stock Ownership Plan shares (June 30, 2007 190,440 shares, December 31, 2006 211,600 shares)	(2,285)	(2,539)
Accumulated other comprehensive loss	(205)	(192)
Total shareholders equity	83,442	81,741
Total liabilities and shareholders equity	$ 769,152	$ 808,343

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Income

(In thousands of dollars except per share data)

(Unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Interest and dividend income				
Loans, including fees	$ 10,985	$ 10,970	$ 22,593	$ 20,972
Securities	157	157	314	314
Dividends and other interest-earning assets	155	163	328	313
Total interest income	11,297	11,290	23,235	21,599
Interest expense				
Deposits	5,999	4,571	11,892	8,570
Federal Home Loan Bank advances	1,152	1,934	2,708	3,495
Total interest expense	7,151	6,505	14,600	12,065
Net interest income	4,146	4,785	8,635	9,534
(Negative) provision for loan losses	(74)	112	(90)	183
Net interest income after provision for loan losses	4,220	4,673	8,725	9,351
Noninterest income				
Customer service fees	422	334	799	662
Mortgage loan prepayment penalties	7	60	37	88
Income from bank owned life insurance	195	162	364	316
Other income	5	5	9	9
Total noninterest income	629	561	1,209	1,075
Noninterest expense				
Salaries and employee benefits	1,942	1,956	3,912	3,809
Occupancy and equipment	462	419	915	885
Advertising	92	98	192	202
Professional fees	131	44	259	228
Stationary, supplies, and postage	124	101	245	211
Data processing	263	221	484	436
ATM costs	126	136	240	257
Operating loss on equity investment	86	99	172	197
Other general and administrative	450	449	755	739
Total noninterest expense	3,676	3,523	7,174	6,964
Income before income taxes	1,173	1,711	2,760	3,462
Income tax expense	373	589	922	1,228
Net income	$ 800	$ 1,122	$ 1,838	$ 2,234

Comprehensive income	$ 733	$ 1,048	$ 1,825	$ 2,049
Earnings per share				
Basic	$ .19	$ .28	$ .44	$ .55
Diluted	$ .19	$ .27	$ .43	$ .53

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Cash Flows

(In thousands of dollars)

(Unaudited)

	Six Months Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,838	$ 2,234
Adjustments to reconcile net income to net cash provided by operating activities		
Net amortization on securities	(9)	(10)
(Negative) provision for loan losses	(90)	183
Depreciation and amortization	218	241
Federal Home Loan Bank stock dividends	(253)	(206)
Bank owned life insurance income	(364)	(316)
Employee stock ownership plan compensation expense	559	608
Stock award compensation expense	343	270
Stock option compensation expense	158	62
Operating loss on equity investment	172	197
Deferred income tax (benefit)/expense	(251)	(1)
Interest capitalized on negative amortizing loans	(917)	(746)
Net change in:		
Deferred loan fees	(187)	44
Accrued interest receivable	477	(565)
Other assets	367	116
Accrued interest payable and other liabilities	244	(70)
Net cash provided by operating activities	2,305	2,041
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan originations and principal collections, net	39,611	(65,837)
Increase in other interest bearing deposits		515
Purchase of Federal Home Loan Bank stock		(1,075)
Proceeds from maturities and principal repayment of securities available-for-sale		1
Redemption of Federal Home Loan Bank stock	3,387	
Funding of equity investment	(56)	(1,077)
Additions to premises and equipment	(225)	(115)
Net cash provided by investing activities	42,717	(67,588)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	12,440	30,887
Net change in Federal Home Loan Bank open line	(40,700)	45,600
Repayments of Federal Home Loan Bank advances	(13,000)	(10,000)
Purchase of treasury stock	(310)	(435)
Exercise of stock options	214	91
Dividends paid on common stock	(1,536)	(1,245)
Net cash provided by financing activities	(42,892)	64,898
Net change in cash and cash equivalents	2,130	(649)

Cash and cash equivalents at beginning of period	13,995	13,873
Cash and cash equivalents at end of period	$ 16,125	$ 13,224
Supplemental disclosures of cash flow information Adjustment to adopt FIN 48	$ 328	$

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Equity

(In thousands of dollars)

(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned ESOP	Unearned Stock Awards	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2006	$ 54	$ 66,127	$ 39,962	$ (23,293)	$ (3,047)	$ (1,866)	$ (168)	$ 77,769
Comprehensive income:								
Net income			4,714					4,714
Change in net unrealized gain (losses) on securities available-for-sale, net of reclassification and tax effects							(24)	(24)
Total comprehensive income								4,690
ESOP forfeitures used to reduce ESOP contribution		26						26
Options exercised		8		357				365
Stock option compensation expense		162						162
Stock awards earned		612						612
Issuance of stock awards		(23)		23				
Purchase of 20,708 shares of treasury stock				(602)				(602)
Employee stock ownership plan shares earned		701			508			1,209
Tax benefits of RRP shares vesting		193						193
Dividends declared ($.63 per share)			(2,683)					(2,683)
Transferred to APIC (stock awards)		(1,866)				1,866		
Balance at December 31, 2006	$ 54	$ 65,940	$ 41,993	$ (23,515)	$ (2,539)	$	$ (192)	$ 81,741
Adjustment to adopt FIN 48			328					328
Comprehensive income:								
Net income			1,838					1,838
Change in net unrealized gain (losses) on securities available-for-sale, net of reclassification and tax effects							(13)	(13)
Total comprehensive income								1,825
Options exercised		(19)		233				214
Stock option compensation expense		158						158
Stock awards earned		343						343
Purchase of 12,275 shares of treasury stock				(310)				(310)

Employee stock ownership plan shares earned		305			254			559
Tax Benefits of RRP Shares Vesting		120						120
Dividends declared ($.37 per share)			(1,536)					(1,536)
Balance at June 30, 2007	$ 54	$ 66,847	$ 42,623	$ (23,592)	$ (2,285)	$	$ (205)	$ 83,442

See accompanying notes to consolidated financial statements.

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FIRST PACTRUST BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of First PacTrust Bancorp, Inc. (the Company) and its wholly owned subsidiary Pacific Trust Bank (the Bank) as of June 30, 2007 and December 31, 2006 and for the three and six month periods ended June 30, 2007 and June 30, 2006. Significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission. The December 31, 2006 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission, but does not include all of the disclosures required by U.S. generally accepted accounting principles.

Interim statements are subject to possible adjustment in connection with the annual audit of the Company for the year ending December 31, 2007. In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented.

The results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

Note 2 Summary of Significant Accounting Policies

Nature of Operations: The only business of the Company is the ownership of the Bank. The Bank is a federally chartered stock savings bank and a member of the Federal Home Loan Bank (FHLB) system and with the Federal Deposit Insurance Corporation. The Bank is engaged in the business of retail banking, with operations conducted through its main office and eight branches located in San Diego and Riverside counties. There are no significant concentrations of loans to any one industry or customer. However, the customer s ability to repay their loans is dependent on the real estate market and general economic conditions in the area.

The accounting and reporting polices of the Company are based upon U.S. generally accepted accounting principles and conform to predominant practices within the banking industry. Significant accounting policies followed by the Company are presented below.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan losses and fair value of financial instruments are particularly subject to change.

New Accounting Pronouncements: The Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), as of January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

As a result of adoption, the Company recognized an increase to deferred tax assets of $328,000 for uncertain tax positions. This amount was accounted for by increasing the beginning balance of retained earnings on the balance sheet. After recording the cumulative effect at the beginning of 2007 the Company had approximately $109,000 of total gross unrecognized tax benefits at June 30, 2007. Of this total, $109,000 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

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The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2002 and for all state income taxes through 2000. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company had $0 accrued for interest and penalties at June 30, 2007.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance).* The Task Force reached a consensus that a policyholder should consider any additional amounts included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract. The task forces agreed that contractual limitations should be considered when determining the realizable amounts. Those amounts that are recoverable by the policyholder at the discretion of the insurance company should be excluded from the amount that could be realized. The task force also agreed that fixed amounts that are recoverable by the policyholder in future periods in excess of one year from the surrender of the policy should be recognized at their present value. The task force also reached a consensus that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual life by individual life policy. The task force also noted that any amount that is ultimately realized by the policyholder upon the assumed surrender of the final policy shall be included in the amount that could be realized under the insurance contract. The issue was effective for fiscal years beginning after December 15, 2006, but early adoption is permitted. The adoption of this standard did not have a material impact on the financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of this standard.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* This Statement allows companies to record certain financial assets and liabilities at full fair value if they so choose. This statement was issued to mitigate volatility in reporting earnings caused by an accounting model using multiple measurement attributes. The effective date is the beginning of the first fiscal year after November 15, 2007. Early adoption must be made within 120 days of the beginning of the fiscal year of adoption. Early adoption also requires the adoption of the requirements of Statement No. 157, *Fair Value Measurements.* The Company is currently evaluating the impact of the adoption of this standard.

Note 3 Employee Stock Ownership Plan

In connection with its conversion from a federally chartered mutual savings bank to a federally chartered stock savings bank in 2002, the Bank established an Employee Stock Ownership Plan (ESOP) for the benefit of its employees. The Company issued 423,200 shares of common stock to the ESOP in exchange for a ten-year note in the amount of approximately $5.1 million. The $5.1 million for the ESOP purchase was borrowed from the Company.

Shares issued to the ESOP are allocated to ESOP participants based on principal repayments made by the ESOP on the loan from the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Bank s contributions to the ESOP and earnings on ESOP assets. Principal payments are scheduled to occur over a ten-year period. Dividends on allocated and/or unearned shares first reduce accrued interest and second reduce principal.

Note 4 Employee Stock Compensation

Stock Options

A Stock Option Plan (SOP) provides for issue of options to directors, officers, and employees. The Company adopted the SOP in April of 2003 under the terms of which up to 529,000 shares of the Company s common stock may be awarded. The options become exercisable in equal installments over a five-year period beginning on their one year anniversary after the date of grant. The options expire ten years from the date of grant. As of June 30, 2007 the Company had 474,396 options outstanding, after 10,304 options were exercised during the six months ended June 30, 2007. There were no options granted during the six months ended June 30, 2007, however, 7,000 options were forfeited during the period.

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The following table represents stock option activity for the six months ended June 30, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of period	491,700	$ 18.46		
Granted				
Exercised	(10,304)	$ 17.19		$ 80,268
Forfeited or expired	(7,000)	$ 25.27		
Outstanding at end of period	474,396	$ 18.39	6.15	$ 3,126,270
Options exercisable at end of period	342,686	$ 17.97	6.04	$ 2,402,229

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of the Company s common stock as of the reporting date. SFAS 123(R) requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 5% for senior management and the board of directors and 36% for all other employees. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. The Company recorded stock compensation expense of $158,000 and $63,000 as salary and employee benefits expense during the six months ended June 30, 2007 and 2006 respectively. As of June 30, 2007, there was $375,000 of unrecognized compensation cost related to 131,710 nonvested options in the plan.

Options outstanding at June 30, 2007 were as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$17 - $22	449,396	6.05	17.91	334,086	17.75
$22 - $25					
$25 - $29	25,000	7.92	26.86	8,600	26.45
Outstanding at period end	474,396			342,686	

Recognition and Retention Plan

A Recognition and Retention Plan (RRP) provides for the issuance of shares to directors, officers, and employees. Pursuant to its 2003 stock-based incentive plan, the Company awarded 214,800 shares of RRP awards since inception of the plan. There were no shares granted during the six months ended June 30, 2007. There were no shares forfeited in 2006 or during the first and second quarter of 2007. Compensation expense for RRP awards totaled approximately $343,000 for the six months ended June 30, 2007 and $270,000 for the six months ended June 30, 2006. As of June 30, 2007, there was a total of $765,000 unrecognized compensation cost related to 50,720 nonvested RRP awards granted under the plan.

As described in Note 13 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, the plan allows for the issuance of RRP awards that may not be sold or otherwise transferred until the restrictions have lapsed. The unearned stock-based compensation related to these awards is being amortized to compensation expense over the vesting period (generally one to five years). The share based expense for these awards was determined based on the market price of our stock at the date of grant applied to the total numbers of shares that were anticipated to fully vest and then amortized over the vesting period.

SFAS 123(R) requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense was reduced for estimated forfeitures prior to vesting primarily

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based on historical annual forfeiture rates of approximately 6%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. Prior to January 1, 2006, actual forfeitures were accounted for as they occurred for purposes of required pro forma stock compensation disclosures.

Note 5 Earnings Per Share

Basic earnings per share were computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share were computed by dividing net income by the weighted average number of shares outstanding, adjusted for the dilutive effect of the outstanding stock options and restricted stock awards. Computations for basic and diluted earnings per share are provided below.

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Basic				
Net income	$ 800	$ 1,122	$ 1,838	$ 2,234
Weighted average common shares outstanding	4,160,950	4,076,149	4,151,155	4,068,787
Basic earnings per share	$ .19	$ .28	$ .44	$ .55
Diluted				
Net income	$ 800	$ 1,122	$ 1,838	$ 2,234
Weighted average common shares outstanding for basic earnings per common share	4,160,950	4,076,149	4,151,155	4,068,787
Add: Dilutive effects of stock options	66,482	98,125	73,755	96,202
Add: Dilutive effects of stock awards	7,818	19,374	9,439	20,116
Average shares and dilutive potential common shares	4,235,249	4,193,647	4,234,349	4,185,105
Diluted earnings per common share	$ .19	$ .27	$ .43	$ .53

Stock options for 25,000 and 0 shares of common stock were not considered in computing diluted earnings per common share for the period ending June 30, 2007 and 2006 because they were anti-dilutive.

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion compares the financial condition of First PacTrust Bancorp, Inc. (the Company), at June 30, 2007 to its financial condition at December 31, 2006 and the results of operations for the three month and six month periods ended June 30, 2007 to the same period in 2006. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

The Company is a community-oriented financial institution deriving substantially all of its revenue from providing banking services to individuals within its market area, primarily San Diego County and portions of Riverside County, CA. The Company s assets consist primarily of loans and investment securities, which are funded by deposits, borrowings and capital. The primary source of revenue is net interest income, the difference between interest income on loans and investments, and interest expense on deposits and borrowed funds. The Company s basic strategy is to maintain and grow net interest income by the retention of its existing customer base and the expansion of its core businesses and branch offices within its current market and surrounding areas. The Company s primary market risk exposure is interest rate risk. Interest rate risk is the exposure of net interest income to changes in interest rates.

Comparison of Financial Condition at June 30, 2007 and December 31, 2006

The Company s total assets decreased 4.9%, to $769.2 million at June 30, 2007 from $808.3 million at December 31, 2006. The decrease primarily reflected a reduction in the balance of loans receivable in the amount of $38.4 million and a $3.1 million decrease in FHLB stock.

Net loans receivable decreased by $38.4 million, or 5.2%, to $701.6 million at June 30, 2007 from $740.0 million at December 31, 2006. The decrease in loans resulted primarily from repayments exceeding loan originations during the period as loan production substantially decreased over the prior period. One-to-four- family loans decreased $64.4 million, multifamily loans decreased $10.2 million, commercial loans decreased $2.8 million and home equity loans decreased $1.4 million during the six months ended June 30, 2007 due to loan payoffs experienced during the quarter. In order to prevent further margin compression, the bank has been yield conscious when pursuing one-to-four- family loans. Loan production of

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$88.1 million year-to-date was primarily attributable to $52.9 million of originations of the Company s transactional flexible mortgage loan product. The net increase in this product during the period was $36.5 million. Commercial real estate loans increased $1.1 million and consumer loans increased $175,000. At June 30, 2007, the Company has a total of $310.6 million in interest only mortgage loans and $61.7 million in loans with potential for negative amortization. At December 31, 2006, the Company had a total of $343.0 million in interest only mortgage loans and $77.8 million in loans with potential for negative amortization. These loans could pose a higher credit risk because of the lack of principal amortization and potential for negative amortization. However, management believes the risk is mitigated through the Company s loan terms and underwriting standards, including its policies on loan-to-value ratios.

Securities classified as available-for-sale of $14.0 million at June 30, 2007 decreased $13,000 from December 31, 2006 due to a decrease in the market value of agency securities.

Total deposits increased by $12.4 million, or 2.2%, to $583.0 million at June 30, 2007 from $570.5 million at December 31, 2006. Deposits increased as a result of marketing efforts and newly originated business deposits and primarily reflected growth in money market accounts. Money market accounts increased $20.5 million, or 12.1%, to $190.2 million, chiefly in the Company s indexed money market account due to competitive rate terms. Certificates of deposit increased $2.0 million or 1.0% to $292.1 million. NOW accounts decreased $8.6 million or 16.3% to $44.3 million and savings accounts decreased $2.8 million or 6.5% to $40.6 million due to customers shifting their funds into higher yielding products of the Company. Due to the increase in retail deposit balances and the reduction in outstanding loans, the Bank became less reliant on wholesale funding including Federal Home Loan Bank advances, which decreased $53.7 million to $97.5 million, and brokered certificates of deposit, which decreased $15.4 million to $6.3 million at June 30, 2007.

Equity increased $1.7 million to $83.4 million at June 30, 2007 from $81.7 million at December 31, 2006. The net increase resulted primarily from net income of $1.8 million, an increase in ESOP shares earned of $559,000, stock awards shares earned of $343,000 and an increase in retained earnings in the amount of $328,000 resulting from the adoption of the new accounting standard FIN 48. Equity was decreased primarily by the payment of dividends of $1.5 million and the purchase of treasury stock in the amount of $310,000.

Comparison of Operating Results for the Six months ended June 30, 2007 and 2006

General. Net income for the six months ended June 30, 2007 was $1.8 million, reflecting a 17.7% decrease over the same period of the prior year. The decrease resulted from the fluctuations described below.

Interest income. Interest income increased by $1.6 million, or 7.6%, to $23.2 million for the six months ended June 30, 2007 from $21.6 million for the six months ended June 30, 2006. The primary factor for the increase in interest income was an increase in the average yield on loans receivable increasing 43 basis points from 5.85% for the six months ended June 30, 2006 to 6.28% for the six months ended June 30, 2007 reflecting the overall increase in interest rates compared to the prior period. Additionally, the average balance of loans receivable increased $2.2 million, or 0.3%, from $717.5 million for the six months ended June 30, 2006 to $719.7 million for the six months ended June 30, 2007. In addition, the Company currently has a balance of loans with the potential for negative amortization of $61.7 million at June 30, 2007. Capitalized interest recognized in earnings that resulted from negative amortization within the portfolio totaled $917,000 or 4.1% of loan interest income for the six month period ended June 30, 2007 and $746,000 or 3.6% of loan interest income for the six month period ended June 30, 2006.

Interest income on securities of $314,000 for the six months ended June 30, 2007 remained consistent with the same period from the prior year. The average yield on the securities portfolio decreased to 4.38% for the six months ended June 30, 2007 from 4.39% for the six months ended June 30, 2006.

Interest Expense. Interest expense increased $2.5 million or 21.0%, to $14.6 million for the six months ended June 30, 2007. Interest expense on deposits increased $3.3 million, or 38.8%, to $11.9 million for the six months ended June 30, 2007 from $8.6 million for the same period in 2006. This resulted from a 74 basis point increase in the Company s cost of funds due to an increase in short term interest rates as well as a $56.4 million increase in the average balance of deposits from $505.6 million for the six months ended June 30, 2006 to $561.9 million for the six months ended June 30, 2007. The average balance of deposits increased as a result of marketing efforts and newly originated business deposits. Interest expense on Federal Home Loan Bank advances decreased $787,000 or 22.5% to $2.7 million for the six months ended June 30, 2007 from $3.5 million for the six months ended June 30, 2006 primarily due to a $58.2 million decrease in the average balance of Federal Home Loan Bank advances resulting from growth in deposit balances and decreased loan balances. Although Federal Home Loan Bank advances substantially decreased during the period ended June 30, 2007 the average rate paid on FHLB advances increased 54 basis points from the same period ended June 30, 2006.

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Net Interest Income. As a result of the combined effect of the factors mentioned above, net interest income before provision for loan losses decreased $899,000 or 9.4%, to $8.6 million for the six months ended June 30, 2007 from $9.5 million for the six months ended June 30, 2006. Due to the continued flat yield curve environment, the Company s margins continue to further tighten with the net interest spread decreasing 32 basis points to 1.9%, and the net interest margin decreasing 24 basis points to 2.3%.

Provision for Loan Losses. A negative provision of $90,000 and a provision of $183,000 was made for the six months ended June 30, 2007 and 2006 respectively. A negative provision was made during the year as a result of decreased loan balances, continued low level of charge-offs, and adjustments made for current peer ratios and changes in other economic factors affecting the loan loss analysis. The Company reduced the growth factors in the allowance due to the overall reduction of loan balances from the prior period and the expectation that net loan balances will not exceed the total balances that existed at the beginning of the year. The economic factors for the Company s construction loans was increased due primarily to the credit weaknesses the Company is experiencing in the residential construction loan segment of the loan portfolio. During the quarter ended June 30, 2007 one construction loan totaling $10 million, which represents the Company s one-third participant amount, was placed on non-accrual, was determined to be impaired, and a specific loss allocation of $786,000 was established. The loss allocation was established based on information obtained from the lead lender that the project has not been progressing as planned and the financial viability of the project, as currently structured, is uncertain. Other than this construction loan the Company s delinquencies and classified assets have remained low. The Company s construction loan portfolio, including the non-accrual construction loan, currently totals $19.5 million or 2.8% of the Company s total loan portfolio. At this time the Company does not anticipate elevated levels of non-accrual loans and classified assets in the remaining construction loan segment of the portfolio. Year-to-date charge-offs totaled $13,000 and recoveries totaled $10,000 resulting in net charge-offs of $3,000 for the six month period ending June 30, 2007. For the same period of the prior year net charge-offs totaled $6,000. Total non-performing loans, including the impaired loan mentioned above, totaled $16.5 million at June 30, 2007. At June 30, 2006, non-performing loans totaled $2.0 million with no loans considered impaired. The allowance for loan losses as a percentage of loans outstanding was .65% at June 30, 2007 compared to .64% at June 30, 2006.

Provisions of loan losses were made at a level required to reflect probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. Large groups of smaller balance homogenous loans, such as residential real estate, small commercial real estate, and home equity and consumer loans, are evaluated in the aggregate using historical loss factors and peer group data adjusted for current economic conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, and classified loans, are evaluated individually for impairment.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. The Company used the same methodology and generally similar assumptions in assessing the allowance for both periods. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses quarterly. While management uses available information to recognize losses on loans future loan loss provisions may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of June 30, 2007 was maintained at a level that represented management s best estimate of incurred losses in the loan portfolio to the extent they were both probable and reasonably estimable.

Noninterest Income. Noninterest income increased $134,000 or 12.5% to $1.2 million for the six months ended June 30, 2007 primarily due to increased customer service fees of $137,000. During 2006, the Company adjusted various customer service fees resulting in increased service fee income compared to the prior period. Additionally, bank owned life insurance income increased $48,000 to $364,000 for the six months ended June 30, 2007 from $316,000 for the same period ended June 30, 2006 due to improved performance of the investment. The net increase in noninterest income was reduced by a $51,000 decrease in prepayment penalties and miscellaneous decreases in various accounts.

Noninterest Expense. Noninterest expense increased $210,000 or 3.0%, to $7.2 million for the six months ended June 30, 2007. This net increase was primarily the result of a $103,000 increase in salaries and employee benefit expenses, an increase in data processing costs of $48,000 and an increase of $34,000 in stationary, supplies and postage expenses.

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Salaries and employee benefits expense of $3.9 million for the six months ended June 30, 2007 were $103,000 or 2.7% higher than for the same period of the prior year due to increased stock compensation expenses. Total salaries and benefit expenses represented 54.5% and 54.7% of total noninterest expense for the six months ended June 30, 2007 and June 30, 2006, respectively.

Data processing costs increased $48,000 or 11.0%, to $484,000 for the six months ended June 30, 2007 from $436,000 for the six months ended June 30, 2006 primarily due to increased software maintenance expenses and fees related to increased processing volume resulting from new commercial business accounts.

Stationary, supplies and postage expenses increased $34,000 or 16.1% to $245,000 for the six months ended June 30, 2007 from $211,000 for the six months ended June 30, 2006 due to increased supplies, forms and disclosures related to the new commercial business accounts.

Income Tax Expense. Income tax expense decreased $306,000 to $922,000 for the six months ended June 30, 2007. This decrease was primarily the result of lower pre-tax income. The effective tax rate was 33.4% and 35.5% for periods ending June 30, 2007 and 2006, respectively.

Comparison of Operating Results for the Three Months Ended June 30, 2007 and 2006

General. Net income for the three months ended June 30, 2007 was $800,000 reflecting a $322,000 or 28.7% decrease over last year s quarter. The decrease resulted from the fluctuations described below.

Interest income. Interest income for the three months ended June 30, 2007 of $11.3 million remained consistent with the same period from the prior year. The average balance of loans receivable decreased by $25.2 million or 3.4%, from $732.8 million for the three months ended June 30, 2006 to $707.6 million for the three months ended June 30, 2007. The average yield on loans receivable increased 22 basis points from 5.99% for the three months ended June 30, 2006 to 6.21% for the three months ended June 30, 2007 reflecting the overall increase in interest rates compared to the prior period.

The Company currently has a balance of loans with the potential for negative amortization of $61.7 million at June 30, 2007. Capitalized interest recognized in earnings that resulted from negative amortization within the portfolio totaled $424,000 or 3.9% of loan interest income for the three month period ended June 30, 2007 and $398,000 or 3.6% of loan interest income for the three month period ended June 30, 2006.

Interest income on securities of $157,000 for the three months ended June 30, 2007 remained consistent with the same period from the prior year. The average yield on the securities portfolio was 4.38% for the six months ended June 30, 2007 down from 4.39% for the six months ended June 30, 2006.

Interest Expense. Interest expense increased $646,000 or 9.9%, to $7.2 million for the three months ended June 30, 2007. Interest expense on deposits increased $1.4 million, or 31.2%, to $6.0 million for the three months ended June 30, 2007 from $4.6 million for the same period in 2006. This resulted from a 52 basis point increase in the Company s cost of funds due to an increase in short term interest rates as well as a $49.5 million increase in the average balance of deposits from $513.8 million for the three months ended June 30, 2006 to $563.3 million for the three months ended June 30, 2007. The average balance of deposits increased as a result of marketing efforts and newly originated business deposits. Interest expense on Federal Home Loan Bank advances decreased $782,000 or 40.4% from $1.9 million for the three months ended June 30, 2006 to $1.2 million for the three months ended June 30, 2007 primarily due to a $79.9 million decrease in the average balance of FHLB advances resulting from increased deposit balances and decreased loan balances. Although Federal Home Loan Bank advances substantially decreased during the period ended June 30, 2007 the average rate paid on FHLB advances increased 13 basis points from the same period ended June 30, 2006.

Net Interest Income. As a result of the combined effect of the factors mentioned above, net interest income before provision for loan losses decreased $639,000, or 13.4%, to $4.1 million for the three months ended June 30, 2007 from $4.8 million for the three months ended June 30, 2006. Due to the continued flat yield curve environment, the Company s margins continue to further tighten with the net interest spread decreasing 28 basis points to 1.9%, and the net interest margin decreasing 26 basis points to 2.2%.

Provision for Loan Losses. A negative provision of $74,000 and a provision of $112,000 was made for the three months ended June 30, 2007 and 2006 respectively. A negative provision was made during the quarter as a result of decreased loan balances, continued low level of charge-offs, and adjustments made for current peer ratios and changes in other economic factors affecting the loan loss analysis. The Company reduced the growth factors in the allowance due to the overall reduction of loan balances from the prior period and the expectation that net loan balances will not exceed the total

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balances that existed at the beginning of the year. The economic factors for the Company s construction loans was increased due primarily to the credit weaknesses the Company is experiencing in the residential construction loan segment of the loan portfolio. During the quarter ended June 30, 2007 one construction loan totaling $10.0 million, which represents the Company s one-third participant amount, was placed on non-accrual, was considered to be impaired, and a loss allocation of $786,000 was established. The loss allocation was established based on information obtained from the lead lender that the project has not been progressing as planned and the financial viability of the project, as currently structured, is uncertain. Other than this construction loan the Company s delinquencies and classified assets have remained low. The Company s construction loan portfolio, including the non-accrual construction loan, currently totals $19.5 million or 2.8% of the Company s total loan portfolio, At this time the Company does not anticipate elevated levels of non-accrual loans and classified assets in the remaining construction loan segment of the portfolio in the near future. For the quarter ending June 30, 2007 charge-offs totaled $10,000 and recoveries totaled $2,000 resulting in net charge-offs of approximately $8,000. For the second quarter of the prior year, net charge-offs totaled $3,000. Total non-performing loans, including the impaired loan mentioned above, totaled $16.5 million at June 30, 2007. At June 30, 2006, non-performing loans totaled $2.0 million with no loans considered impaired. The allowance for loan losses as a percentage of loans outstanding was .65% at June 30, 2007 compared to .64% at June 30, 2006.

Provisions of loan losses were made at a level required to reflect probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. Large groups of smaller balance homogenous loans, such as residential real estate, small commercial real estate, and home equity and consumer loans, are evaluated in the aggregate using historical loss factors and peer group data adjusted for current economic conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, and classified loans, are evaluated individually for impairment.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. The Company used the same methodology and generally similar assumptions in assessing the allowance for both periods. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses quarterly. While management uses available information to recognize losses on loans future loan loss provisions may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of June 30, 2007 was maintained at a level that represented management s best estimate of incurred losses in the loan portfolio to the extent they were both probable and reasonably estimable.

Noninterest Income. Noninterest income increased $68,000, or 12.1% to $629,000 for the three months ended June 30, 2007 primarily due to increased customer service fees of $88,000 and an increase in BOLI investment income of $33,000. Noninterest income was reduced by a $53,000 decrease in mortgage loan prepayment penalties.

Noninterest Expense. Noninterest expense increased $153,000, or 4.3%, to $3.7 million for the three months ended June 30, 2007. This increase was primarily the result of a $87,000 increase in professional fees, an increase of $43,000 in occupancy and equipment expenses and an increase of $42,000 in data processing costs.

Professional fees were $131,000 for the three months ended June 30, 2007 compared to $44,000 for the same quarter of the prior year due to increased legal fees during the period.

Occupancy and equipment expense increased $43,000, or 10.3%, to $462,000 for the three months ended June 30, 2007 from $419,000 for the three months ended June 30, 2006 primarily due to increased furniture and equipment expenses.

Data processing costs increased $42,000 or 19.0% to 263,000 for the three months ended June 30, 2007 from $221,000 for the three months ended June 30, 2006 primarily due to increased software maintenance expenses and increased volume resulting from new commercial business accounts.

Income Tax Expense. Income tax expense decreased $216,000 to $373,000 for the three months ended June 30, 2007. This decrease was primarily the result of lower pre-tax income. The effective tax rate was 31.8% and 34.4% for periods ending June 30, 2007 and 2006, respectively.

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Liquidity and Commitments

The Bank is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe and sound operation. Liquidity may increase or decrease depending upon availability of funds and comparative yields on investments in relation to the return on loans. Historically, the Bank has maintained liquid assets above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to ensure that adequate liquidity is maintained.

The Bank s liquidity, represented by cash and cash equivalents, is a product of its operating, investing, and financing activities. The Bank s primary sources of funds are deposits, payments and maturities of outstanding loans and investment securities; and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, the Bank invests excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. The Bank also generates cash through borrowings. The Bank utilizes Federal Home Loan Bank advances to leverage its capital base and provide funds for its lending activities and to enhance its interest rate risk management.

Liquidity management is both a daily and long-term function of business management. Any excess liquidity would be invested in federal funds or authorized investments such as mortgage-backed or U.S. Agency securities. On a longer-term basis, the Bank maintains a strategy of investing in various lending products. The Bank uses its sources of funds primarily to meet its ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments, and to maintain its portfolio of mortgage-backed securities and investment securities. At June 30, 2007, the total approved loan origination commitments outstanding amounted to $5.4 million. At the same date, unused lines of credit were $66.1 million and outstanding letters of credit totaled $773,000. There were no securities scheduled to mature in one year or less at June 30, 2007. Certificates of deposit scheduled to mature in one year or less at June 30, 2007, totaled $258.3 million. Although the average cost of deposits has increased during the second quarter of 2007, management s policy is to maintain deposit rates at levels that are competitive with other local financial institutions. Based on the competitive rates and on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank. In addition, the Bank had the ability at June 30, 2007 to borrow an additional $178.2 million from the Federal Home Loan Bank of San Francisco as well as $10.0 million from Pacific Coast Bankers Bank and $2.0 million from the Bank of the West as funding sources to meet commitments and for liquidity purposes. The Bank has Federal Home Loan Bank advances of $72.5 million maturing within the next 12 months.

Capital

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain a well capitalized institution in accordance with regulatory standards. Total equity was $78.8 million at June 30, 2007, or 10.25% of total assets on that date. As of June 30, 2007, the Bank exceeded all capital requirements of the Office of Thrift Supervision. The Bank s regulatory capital ratios at June 30, 2007 were as follows: core capital 10.27%; Tier 1 risk-based capital, 13.91%; and total risk-based capital, 14.57%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0%, and 10.0%, respectively.

Impact of Inflation

The unaudited consolidated financial statements presented herein have been prepared in accordance with U. S. generally accepted accounting principles. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

The Company s primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on the Company s performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturities structures of the Company s assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of noninterest expense. Such expense items as employee compensation, employee benefits, and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that the Company has made. The Company is unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Bank s interest rate sensitivity is monitored by management through the use of a model that estimates the change in net portfolio value (NPV) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance-sheet contracts. An NPV Ratio, in any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The Sensitivity Measure is the decline in the NPV Ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The higher an institution s Sensitivity Measure is, the greater its exposure to interest rate risk is considered to be. The Office of Thrift Supervision (OTS) has incorporated an interest rate risk component into its regulatory capital rule. Under the rule, an institution whose Sensitivity Measure exceeds 200 basis points may be required to deduct an interest rate risk component in calculating its total capital for purposes of the risk-based capital requirement. Increases in interest rates would be expected to have a negative impact on the Bank s operating results. As of March 31, 2007, the latest date for which information is available, the Bank s Sensitivity Measure, as measured by the OTS, resulting from a 2% increase in interest rates was a decrease of 157 basis points and would result in a $14.8 million decrease in the NPV of the Bank. The Sensitivity Measure is less than the threshold at which the Bank could be required to hold additional risk-based capital under OTS regulations.

The OTS uses certain assumptions in assessing the interest rate risk of savings associations. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under differing interest rate scenarios, among others.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis used in the forthcoming table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table.

The following table shows the NPV and projected change in the NPV of the Bank at March 31, 2007, the latest date for which information is available, assuming an instantaneous and sustained change in market rates of interest of 100, 200, and 300 basis points. The net portfolio value analysis was unable to produce results for the minus 300 basis point scenario for the quarter ended March 31, 2007.

Interest Rate Sensitivity of Net Portfolio Value (NPV)

				NPV as a % of PV	
	Net Portfolio Value			of Assets	
Change in Rates	**$ Amount**	**$ Change**	**% Change**	**NPV Ratio**	**Change**
+ 300 bp	$ 75,498	(25,544)	(25)%	9.70%	(277)bp
+ 200 bp	86,239	(14,802)	(15)%	10.91%	(157)bp
+ 100 bp	94,552	(6,490)	(6)%	11.80%	(67)bp
0 bp	101,041			12.47%	0bp
- 100 bp	102,765	1,724	2%	12.62%	15bp
- 200 bp	104,532	3,491	3%	12.77%	30bp

The Bank does not maintain any securities for trading purposes. The Bank does not currently engage in trading activities or use derivative instruments in a material amount to control interest rate risk. In addition, interest rate risk is the most significant market risk affecting the Bank. Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not arise in the normal course of the Bank s business activities and operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: An evaluation of the Company s disclosure controls and procedures (as defined in Section 13(a)-15(e) of the Securities Exchange Act of 1934 (the Act)) as of June 30, 2007 was carried out under the supervision and with the participation of the Company s Chief Executive Officer, Principal Financial Officer and other members of the Company s senior management as of the end of the period preceding the filing of this quarterly report. The Company s Chief Executive Officer and Principal Financial Officer concluded that the Company s disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company s management (including the Chief Executive Officer and Principal Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

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There have been no changes in internal controls over financial reporting (as defined in Rule 13a-15(f) under the Activities) that occurred during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure is met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

The Company intends to continually review and evaluate the design and effectiveness of it s disclosure controls and procedures and to improve controls and procedures over time and to correct any deficiencies that may be discovered in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company s business. While the Company believes that the present design of it s disclosure controls and procedures is effective to achieve this goal, future events affecting the Company s business may cause modifications of disclosure controls and procedures.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 1A. Risk Factors

There are no material changes to the risk factors disclosed in the Company s Form 10-K for the year ended December 31, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table sets forth information for the three months ended June 30, 2007 with respect to the repurchase of outstanding common stock.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total # of shares Purchased	Average price paid per share	Total # of shares purchased as part of a publicly announced program	Maximum # of shares that may yet be purchased
04/1/07-04/30/07	12,275	$ 25.28	0	0
05/1/07-05/31/07				0
06/1/07-06/30/07				0

A total of 12,275 shares were repurchased during the quarter ended June 30, 2007 from insiders as payment of related tax liability in lieu of cash by delivering or withholding securities incident to vesting of securities issued in accordance with Rule 16b-3.

As of May 25, 2006, the buyback plan totaling 225,000 shares that was authorized by the Company s board of directors on May 24, 2005 expired. A total of 152,559 shares were purchased under this authorized buyback plan. As of June 30, 2007, a new buyback plan has not been approved by the Company s board of directors.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

(a) None

(b) None

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS

Regulation S-K Exhibit Number	**Document**	**Reference to Prior Filing or Exhibit Number Attached Hereto**
2.0	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3.1	Charter for First PacTrust Bancorp, Inc.	*
3.2	Bylaws of First PacTrust Bancorp, Inc.	*
4.0	Form of Stock Certificate of First PacTrust Bancorp, Inc.	*
9.0	Voting Trust Agreement	None
10.1	Severance Agreement with Hans Ganz	***
10.2	Severance Agreement with Melanie Stewart	***
10.3	Severance Agreement with James P. Sheehy	***
10.4	401(k) Employee Stock Ownership Plan	*
10.5	Registrant s Stock Option and Incentive Plan	**
10.6	Registrant s Recognition and Retention Plan	**
10.7	Named Executive Officers Salary and Bonus Arrangements for 2005 and Director Fee Arrangements for 2005.	****
11.0	Statement regarding computation of ratios	None
14.0	Code of Ethics	***
16.0	Letter regarding change in certifying accountant	None
18.0	Letter regarding change in accounting principles	None
21.0	Subsidiaries of the Registrant	*

22.0	Published Report regarding matters submitted to vote of security holders	None
23.0	Consent of Crowe Chizek and Company LLP	****
24.0	Power of Attorney, included in signature pages	****
31.1	Rule 13(a)-14(a) Certification (Chief Executive Officer)	31.1
31.2	Rule 13(a)-14(a) Certification (Chief Financial Officer)	31.2
32.0	Section 1350 Certification Chief Executive Officer and Chief Financial Officer	32

* Filed in First PacTrust s Registration Statement on Form S-1. Filed on March 28, 2002. Such information is hereby incorporated by reference.

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** Filed as an appendix to the Registrant s definitive proxy statement filed on March 21, 2003. Such previously filed document is incorporated herein by reference in accordance with Item 601 of Regulation S-K.

*** Filed as an Exhibit to the Company s annual report on Form 10-K for the year ended December 31, 2003.

(b) Exhibits Included, see list in (a)(3).

(c) Financial Statement Schedules None

**** Filed as an Exhibit to the Company s annual report on Form 10-K for the year ended December 31, 2006.

(a) Exhibits Included, see list in (a)(3).

(b) Financial Statement Schedules None

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.

	FIRST PACTRUST BANCORP, INC.
Date: August 3, 2007	/s/ Hans R. Ganz Hans R. Ganz President and Chief Executive Officer
Date: August 3, 2007	/s/ Regan Lauer Regan Lauer Senior Vice President/ Controller (Principal Financial and Accounting Officer)