PACIFIC PREMIER BANCORP INC
Form 10-Q
May 15, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _______ to _______

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

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

1600 SUNFLOWER AVENUE, 2ND FLOOR, COSTA MESA, CALIFORNIA 92626
(714) 431 - 4000
(Registrant's telephone number, including area code)

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

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
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FOR THE QUARTER ENDED MARCH 31, 2007

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and due from banks	$ 10,402	$ 7,028
Federal funds sold	23,412	10,012
Cash and cash equivalents	33,814	17,040
Investment securities available for sale	60,194	61,816
Federal Reserve and Federal Home Loan Bank Stock, at cost	17,152	15,328
Loans:		
Loans held for sale, net	1,103	795
Loans held for investment, net of allowance of $3,863 (2007) and $3,543 (2006)	587,945	604,304
Accrued interest receivable	3,907	3,764
Foreclosed real estate	113	138
Premises and equipment	9,361	8,622
Current income taxes	245	130
Deferred income taxes	6,527	6,992
Bank Owned Life Insurance	10,476	10,344
Other assets	1,193	1,601
Total Assets	$ 732,030	$ 730,874
LIABILITIES AND STOCKHOLDERS’ EQUITY		
LIABILITIES		
Deposit accounts		
Noninterest bearing	$ 28,967	$ 33,607
Interest bearing:		
Transaction accounts	63,913	63,154
Retail certificates of deposit	221,903	211,714
Wholesale/brokered certifcates of deposit	33,379	30,974
Total Deposits	348,162	339,449
Borrowings	308,069	316,491
Subordinated debentures	10,310	10,310
Accrued expenses and other liabilities	6,993	6,586

Total Liabilities	$	673,534	$	672,836
COMMITMENTS AND CONTINGENCIES		-		-
STOCKHOLDERS' EQUITY				
Common stock, $.01 par value; 15,000,000 shares authorized; 5,213,488 (2007) and 5,263,488 (2006) shares issued and outstanding	$	52	$	54
Additional paid-in capital		66,801		67,306
Accumulated deficit		(7,686)		(8,631)
Accumulated other comprehensive loss, net of tax of $470 (2007) and $483 (2006)		(671)		(691)
Total Stockholders' Equity	$	58,496	$	58,038
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	732,030	$	730,874

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

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

	For the Three Months Ended			
	March 31, 2007		March 31, 2006	
INTEREST INCOME:				
Loans	$	11,079	$	9,770
Other interest-earning assets		1,045		604
Total interest income		12,124		10,374
INTEREST EXPENSE:				
Interest on transaction accounts		426		346
Interest on certificates of deposit		3,045		2,364
Total deposit interest expense		3,471		2,710
Other borrowings		3,970		2,861
Subordinated debentures		203		184
Total interest expense		7,644		5,755
NET INTEREST INCOME		4,480		4,619
PROVISION FOR LOAN LOSSES		299		-

NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		4,181		4,619
NONINTEREST INCOME:				
Loan servicing fee income		350		338
Bank and other fee income		141		102
Net gain from loan sales		1,034		386
Other income		215		120
Total noninterest income		1,740		946
NONINTEREST EXPENSE:				
Compensation and benefits		2,643		2,230
Premises and occupancy		567		545
Data processing		115		95
Net loss on foreclosed real estate		2		81
Legal and audit		352		136
Marketing expense		194		133
Office and postage expense		94		91
Other expense		463		363
Total noninterest expense		4,430		3,674
INCOME BEFORE INCOME TAXES		1,491		1,891
PROVISION FOR INCOME TAXES		546		151
NET INCOME	$	945	$	1,740
INCOME PER SHARE:				
Basic income per share	$	0.18	$	0.33
Diluted income per share	$	0.14	$	0.26
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic		5,252,932		5,254,160
Diluted		6,693,646		6,681,371

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(Dollars in thousands)
(UNAUDITED)

Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive	Comprehensive Income (Loss)	Total Stockholders' Equity

					Loss		
Balance at December 31, 2005	5,228,438	$ 53	$ 67,161	($16,059)	($613)		$ 50,542
Net income	-	-	-	1,740	-	$ 1,740	1,740
Unrealized loss on investments, net of tax of ($78)	-	-	-	-	(111)	(111)	(111)
Total comprehensive income						$ 1,629	
Restricted stock issued	31,050						
Share-based compensation expense			24				24
Stock options exercised	6,500	-	57	-	-		57
Balance at March 31, 2006	5,265,988	$ 53	$ 67,242	($14,319)	($724)		$ 52,252

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2006	5,263,488	$ 54	$ 67,306	($8,631)	($691)		$ 58,038
Net income	-	-	-	945	-	$ 945	945
Unrealized loss on investments, net of tax of $13	-	-	-	-	20	20	20
Total comprehensive income						$ 965	
Share-based compensation expense			62				62
Common stock repurchased and retired	(50,000)	(2)	(567)				(569)
Balance at March 31, 2007	5,213,488	$ 52	$ 66,801	($7,686)	($671)		$ 58,496

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(UNAUDITED)

	Three Months Ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 945	$ 1,740
Adjustments to net income:		
Depreciation expense	180	93
Provision for loan losses	299	-
Share-based compensation	62	24
(Gain) loss on sale and disposal of premises and equipment	(35)	7
Loss on sale, provision, and write-down of foreclosed real estate	45	73
Net unrealized (gain) loss and amortization on investment securities	(53)	98
Gain on sale of loans held for investment	(1,034)	(386)
Purchase and origination of loans held for sale	(309)	-
Proceeds from the sales of, and principal payments from, loans held for sale	1	41
Change in current and deferred income tax receivable	350	(657)
Increase (decrease) in accrued expenses and other liabilities	407	(528)
Federal Home Loan Bank stock dividend	(224)	(159)
Income from bank owned life insurance	(132)	(1)
Decrease (increase) in other assets	408	(1,234)
Net cash provided by (used in) operating activities	910	(889)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and principal payments on loans held for investment	111,562	57,921
Purchase, origination and advances of loans held for investment	(94,657)	(56,039)
Principal payments on securities available for sale	1,695	-

Proceeds from sale of foreclosed real estate		26		70
Purchase of securities available for sale		-		-
Proceeds from sale of equipment		35		-
Increase in premises and equipment		(919)		(324)
Purchase of bank owned life insurance		-		(10,000)
Purchase of FHLB and FRB stock		(1,600)		(184)
Net cash provided by (used in) investing activities		16,142		(8,556)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in deposit accounts		8,713		(16,518)
Proceeds from (repayment of) FHLB advances		7,000		(2,835)
Repayment of other borrowings		(15,422)		-
Proceeds from exercise of stock options		-		57
Repurchase of common stock		(569)		-
Net cash used in financing activities		(278)		(19,296)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		16,774		(28,741)
CASH AND CASH EQUIVALENTS, beginning of period		17,040		34,055
CASH AND CASH EQUIVALENTS, end of period	$	33,814	$	5,314
SUPPLEMENTAL CASH FLOW DISCLOSURES:				
Interest paid	$	7,721	$	6,668
Income taxes paid	$	-	$	100
NONCASH OPERATING ACTIVITIES DURING THE PERIOD:				
Restricted stock vested	$	10	$	-
NONCASH INVESTING ACTIVITIES DURING THE PERIOD:				
Transfers from loans to foreclosed real estate	$	45	$	90

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007
(UNAUDITED)

Note 1 - Basis of Presentation

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

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

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006.

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

The following table reflects the reclassification on the Company’s consolidated balance sheet of restricted shares issued from other assets to additional paid-in capital.

Common Stock Amount	With reclassifications For Quarter Ended March 31, 2006	Originally presented For Quarter Ended March 31, 2006	Net Change
Share-based compensation expense	24	-	24
Restricted stock issued	-	363	(363)
Exercise of stock options	57	57	-
Total activity	81	420	(339)

The following table reflects the reclassification on the statement of Company’s cash flows of proceeds from issuance of restriced stock from net cash used in operating activities to net cash used in financing activities and share-based compensation expense from increase in accrued interest and other assets to share-based compensation expense.

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	With reclassifications For Quarter Ended March 31, 2006	Originally presented For Quarter Ended March 31, 2006	Net Change
Share-based compensation expense	$ 24	$ -	$ 24
Increase in accrued interest receivable and other assets	(1,234)	(1,573)	339
All other operating activities	321	321	-
Net cash provided by operating activities	$ (889)	$ (1,252)	$ 363
Proceeds from issuance of restricted stock	$ -	$ 363	(363)
All other financing activities	(19,296)	(19,296)	-
Net cash used in financing activities	$ (19,296)	$ (18,933)	$ (363)

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

Note 2 - Recently Issued Accounting Pronouncements

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

FIN 48 is effective for fiscal years beginning after December 15, 2006 (first quarter of 2007 for calendar year companies). The cumulative effect of applying the provisions of FIN 48 upon adoption will be reported as an adjustment to beginning retained earnings. As of March 31, 2007, the Company had no tax position where an adjustment to retained earnings is necessary.

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

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. It requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. In addition, unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes the choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. The Company has decided against early adoption of SFAS 159. The effect on our results of operations or financial condition when we implement SFAS 159 has not yet been determined.

Note 3 - Regulatory Matters

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

	Actual		To be adequately capitalized		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
At March 31, 2007 (Unaudited)						
Total Capital (to risk-weighted assets)						

Bank	$ 66,009	12.11%	$ 43,605	8.00%	$ 54,506	10.00%
Consolidated	$ 67,672	12.28%	N/A	N/A	N/A	N/A
Tier 1 Capital (to adjusted tangible assets)						
Bank	62,267	8.62%	28,888	4.00%	36,110	5.00%
Consolidated	63,930	8.85%	N/A	N/A	N/A	N/A
Tier 1 Risk-Based Capital (to risk-weighted assets)						
Bank	62,267	11.42%	21,802	4.00%	32,704	6.00%
Consolidated	63,930	11.60%	N/A	N/A	N/A	N/A
At December 31, 2006						
Total Capital (to risk-weighted assets)						
Bank	$ 64,124	11.55%	$ 44,407	8.00%	$ 55,508	10.00%
Consolidated	$ 66,734	12.01%	N/A	N/A	N/A	N/A
Tier 1 Capital (to adjusted tangible assets)						
Bank	60,747	8.38%	29,012	4.00%	36,265	5.00%
Consolidated	63,357	8.73%	N/A	N/A	N/A	N/A
Tier 1 Risk-Based Capital (to risk-weighted assets)						
Bank	60,747	10.94%	22,203	4.00%	33,305	6.00%
Consolidated	63,357	11.40%	N/A	N/A	N/A	N/A

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

Note 4 - Borrowings

At March 31, 2007, total borrowings of the Company amounted to $308.1 million. The borrowings were comprised of Federal Home Loan Bank ("FHLB") term borrowings and overnight advances of $235.0 million and $72.3 million, respectively, and $500,000 at a rate of 6.00% per annum against the Bank's $18.7 million credit facility, secured by mutual funds pledged to Pershing LLC. The Bank's $307.3 million in FHLB advances had a weighted average interest rate of 5.17% and a weighted average maturity of 1.56 years as of March 31, 2007. As of such date, advances from the FHLB were collateralized by pledges of certain real estate loans with an aggregate principal balance of $473.4 million. As of March 31, 2007, the Bank was able to borrow up to 45% of its total assets as of December 31, 2006 under the line, which amounted to $326.8 million, an increase of $8.7 million from the quarter ended December 31, 2006. FHLB advances consisted of the following as of March 31, 2007:

Weighted

Percent

FHLB Advances Maturing in:	Amount	of Total	Average Annual Interest Rate
	(dollars in thousands)		
One month or less	$ 92,300	30.03%	5.50%
Over one month to three months	-	0.00%	0.00%
Over three months to six months	40,000	13.02%	5.48%
Over six months to one year	-	0.00%	0.00%
Over one year	175,000	56.95%	4.93%
Total FHLB advances	$ 307,300	100.00%	5.17%

Note 5 - Subordinated Debentures

In March 2004, the Corporation issued $10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Subordinated Debentures") to PPBI Trust I, which funded the payment of $10.0 million of Floating Rate Trust Preferred Securities issued by PPBI Trust I in March 2004. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 8.11% per annum as of March 31, 2007.

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

Note 6 - Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing income available to common stockholders including common stock equivalents, such as outstanding stock options and warrants by the weighted average number of common shares and common stock equivalents outstanding for the period. Stock options totaling 190,975 and 94,147 shares for March 31, 2007 and March 31, 2006, respectively, were excluded from the computation of diluted earnings per share due to their exercise price exceeding the average market price.

The table below set forth the Company's unaudited earnings per share calculations for the three months ended March 31, 2007 and 2006.

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	For the Three Months Ended March 31,					
	2007			**2006**		
	Net Earnings	**Shares**	**Per Share Amount**	**Net Earnings**	**Shares**	**Per Share Amount**
			(dollars in thousands)			
Net Earnings	$ 945			$ 1,740		

Basic EPS Earnings available to common stockholders	$	945	5,252,932	$ 0.18	$	1,740	5,254,160	$ 0.33
Effect of Warrants and dilutive stock options		-	1,440,714			-	1,427,211	
Diluted EPS Earnings Available to common stockholders plus assumed conversions	$	945	6,693,646	$ 0.14	$	1,740	6,681,371	$ 0.26

Note 7 - Valuation Allowance for Deferred Income Taxes

During 2006, the Company reversed all remaining valuation allowance, as the deferred tax assets were determined, more likely than not, to be realized based on the Company's quarterly analysis of its valuation allowance for deferred taxes. The Company benefited from the reduction in its valuation allowance for deferred taxes for the three months ended March 31, 2006 of $500,000. The Company's valuation allowance for deferred taxes was zero at March 31, 2007.

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

FORWARD-LOOKING STATEMENTS

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

GENERAL

The following presents management's discussion and analysis of the consolidated financial condition and operating results of the Company for the three months ended March 31, 2007 and 2006. The discussion should be read in conjunction with the Company's Management Discussion and Analysis included in the 2006 Annual Report on Form 10-K, plus the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this report.

The results for the three months ended March 31, 2007 are not necessarily indicative of the results expected for the year ending December 31, 2007.

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

The Bank was founded in 1983 as a state chartered savings and loan, became a federally chartered stock savings bank in 1991 and on March 30, 2007, converted to a chartered bank licensed by the California Department of Financial Institutions ("DFI"). The Bank is a member of the FHLB of San Francisco, which is a member bank of the Federal Home Loan Bank System, and the Federal Reserve System. The Bank's deposit accounts are insured up to the $100,000 maximum amount, except for retirement accounts which are insured up to the $250,000 maximum currently allowable under federal laws by the Deposit Insurance Fund, which is an insurance fund administered by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to examination and regulation by the DFI, the Board of Governors of the Federal Reserve System ("FRB"), and by the FDIC.

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

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

CRITICAL ACCOUNTING POLICIES

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

Management believes that the allowance for loan losses is the critical accounting policy that requires estimates and assumptions in the preparation of the Company's financial statements that are most susceptible to significant change.

For further information, see “Allowances for Loan Losses” discussed later in this document and in our 2006 Annual Report on Form 10-K.

FINANCIAL CONDITION

Total assets of the Company were $732.0 million as of March 31, 2007, compared to $730.9 million as of December 31, 2006. The $1.1 million, or 0.2%, increase in total assets is primarily due to an increase in cash and cash equivalents of $16.8 million which was partially offset by a decrease in loans held for investment of $16.4 million.

Investment Securities

A summary of the Company’s securities as of March 31, 2007 and December 31, 2006 is as follows:

	March 31, 2007			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Market Value
	(in thousands)			
Securities Available for Sale:				
Mortgage-Backed Securities (1)	$ 33,616	$ -	$ (206)	$ 33,410
Mutual Funds (2)	27,719	-	(935)	26,784
Total securities available for sale	$ 61,335	$ -	$ (1,141)	$ 60,194
Securities Held to Maturity:				
FHLB Stock	$ 15,552	$ -	$ -	$ 15,552
Federal Reserve Bank Stock	1,600	-	-	1,600
Total securities held to maturity	$ 17,152	$ -	$ -	$ 17,152
Total securities	$ 78,487	$ -	$ (1,141)	$ 77,346

	December 31, 2006			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Market 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

(1) At March 31, 2007, mortgage-backed securities include two collateralized mortgage obligations ("CMO") with a carrying value of $9.9 million. One CMO with a carrying value of $7.8 million is secured by the Federal Home Loan Mortgage Corporation; the other CMO with a carrying value of $2.0 million is a "AAA" rated private label issue.

(2) The Company's mutual fund investments are with Shay Assets Management Inc, within their AMF Ultra Short Mortgage fund and their AMF Intermediate Mortgage fund. Both of these funds qualified for inclusion in the 20% risk-weighting capital category for the quarter ended March 31, 2007. An aggregate of $714,000 of the mutual funds have been pledged to Pershing, LLC to secure an advance of $500,000 under the Bank's $18.7 million line of credit.

Investment Securities by Contractual Maturity
As of March 31, 2007
(dollars in thousands)

	One Year or Less		More than One to Five Years		More than Five to Ten Years		More than Ten Years		Total	
	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield
Mortgage-Backed Securities	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ 33,410	5.01%	$ 33,410	5.01%
Mutual Fund	26,784	5.04%	-	0.00%	-	0.00%	-	0.00%	26,784	5.04%
Total securities available for sale	26,784	5.04%	-	0.00%	-	0.00%	33,410	5.01%	60,194	5.02%
FHLB Stock	15,552	5.68%	-	0.00%	-	0.00%	-	0.00%	15,552	5.68%
Federal Reserve Bank Stock	1,600	6.00%	-	0.00%	-	0.00%	-	0.00%	1,600	6.00%
Total securities held to maturity	17,152	5.71%	-	0.00%	-	0.00%	-	0.00%	17,152	5.71%
Total securities	$ 43,936	5.08%	$ -	0.00%	$ -	0.00%	$ 33,410	5.01%	$ 77,346	5.05%

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

Loans

Gross loans outstanding totaled $592.3 million at March 31, 2007 compared to $607.6 million at December 31, 2006. The $15.3 million decrease is primarily due to the Bank selling $57.8 million of multi-family loans and $5.9 million of commercial real estate loans, which generated net gains of $1.0 million, and the prepayment of loans totaling $42.4 million, which generated loan servicing fee income of $223,000. Partially offsetting the loan sales and loan prepayments was the origination of $101.5 million of new loans, consisting of $68.8 million of multi-family, $5.6 million of other residential loans, $10.1 million of commercial real estate and land, $17.0 million of business loans consisting of $300,000 of commercial owner-occupied loans, $10.7 million of commercial and industrial loans, and $6.0 million of SBA loans. Management has utilized loan sales to manage its liquidity, interest rate risk, loan to deposit ratio, diversification of its loan portfolio, and net balance sheet growth, and expects to continue to do so for the foreseeable future. The Bank's pipeline of new loans at March 31, 2007 was $100.7 million.

A summary of the Company's loan originations, loan sales and principal repayments for the three months ended March 31, 2007 and 2006 are as follows:

	For the Three Months Ended	
	March 31, 2007	March 31, 2006
	(in thousands)	
Beginning balance, gross	$ 607,618	$ 604,976
Loans originated:		
Real Estate:		
Multi-family	68,809	38,545
Commercial real estate	10,105	10,560
One-to-four family (1)	2,850	-
Construction-Multi-family	2,750	-
Business Loans:		
Commercial Owner Occupied (1)	300	5,480
Commercial and Industrial (1)	10,632	1,454
SBA (1)	6,036	-
Total loans originated	101,482	56,039
Total	709,100	661,015
Less:		
Principal repayments	46,447	18,333
Change in undisbursed loan funds	6,504	129
Charge-offs	45	84
Loan Sales	63,743	38,884
Transfers to Real Estate Owned	46	90
Total Gross loans	592,315	603,495
Less ending balance loans held for sale (gross)	(1,097)	(430)
	$ 591,218	$ 603,065

Ending balance loans held for investment (gross)

(1) Includes lines of credit

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

	March 31, 2007			**December 31, 2006**		
	Amount	**Percent of Total**	**Weighted Average Interest Rate**	**Amount**	**Percent of Total**	**Weighted Average Interest Rate**
			(dollars in thousands)			
Real Estate Loans:						
Multi-family	$ 334,735	56.52%	7.03%	$ 357,275	58.80%	6.90%
Commercial	161,770	27.31%				