PACIFIC PREMIER BANCORP INC
Form 10-Q
August 15, 2011

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 June 30, 2011

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
(Address of principal executive offices and zip code)

(714) 431-4000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [_] No [_]

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

Large accelerated filer	[ ]	Accelerated filer	[ ]	Non-accelerated filer (Do not check if a smaller reporting company)	[ ]	Smaller reporting company	[X]

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

The number of shares outstanding of the registrant's common stock as of August 15, 2011 was 10,084,626.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED JUNE 30, 2011

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)	June 30, 2010 (Unaudited)
Cash and due from banks	$ 36,034	$ 63,433	$ 34,645
Federal funds sold	10,998	29	29
Cash and cash equivalents	47,032	63,462	34,674
Investment securities available for sale	141,304	155,094	163,470
FHLB stock/Federal Reserve Bank stock, at cost	13,492	13,334	14,277
Loans held for investment	708,096	564,417	552,192
Allowance for loan losses	(8,517)	(8,879)	(9,169)
Loans held for investment, net	699,579	555,538	543,023
Accrued interest receivable	3,984	3,755	3,680
Other real estate owned	4,447	34	1,860
Premises and equipment	10,108	8,223	8,543
Deferred income taxes	8,960	11,103	10,989
Bank owned life insurance	12,714	12,454	12,195
Intangible assets	2,183	-	-
Other assets	4,308	3,819	4,531
TOTAL ASSETS	$ 948,111	$ 826,816	$ 797,242
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing	$ 122,539	$ 47,229	$ 38,973

Interest bearing:			
Transaction accounts	283,565	203,029	198,906
Retail certificates of deposit	398,985	407,108	392,191
Wholesale/brokered certificates of deposit	10,896	1,874	1,973
Total deposits	815,985	659,240	632,043
FHLB advances and other borrowings	28,500	68,500	66,500
Subordinated debentures	10,310	10,310	10,310
Accrued expenses and other liabilities	11,499	10,164	12,885
TOTAL LIABILITIES	866,294	748,214	721,738
STOCKHOLDERS' EQUITY:			
Preferred Stock, $.01 par value; 1,000,000 shares authorized; no shares outstanding	-	-	-
Common stock, $.01 par value; 15,000,000 shares authorized; 10,084,626 shares at June 30, 2011, 10,033,836 shares at December 31, 2010 and June 30, 2010 issued and outstanding	101	100	100
Additional paid-in capital	76,509	79,942	79,917
Retained earnings (accumulated deficit)	5,031	(526)	(3,971)
Accumulated other comprehensive income (loss), net of tax (benefit) of $123 at June 30, 2011, ($639) at December 31, 2010, and ($379) at June 30, 2010	176	(914)	(542)
TOTAL STOCKHOLDERS' EQUITY	81,817	78,602	75,504
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 948,111	$ 826,816	$ 797,242

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
INTEREST INCOME				
Loans	$ 11,750	$ 8,842	$ 22,283	$ 17,997
	1,059	1,148	2,260	2,177

Investment securities and other interest-earning assets				
Total interest income	12,809	9,990	24,543	20,174
INTEREST EXPENSE				
Interest-bearing deposits:				
Interest on transaction accounts	369	476	814	889
Interest on certificates of deposit	1,792	1,910	3,615	4,078
Total interest-bearing deposits	2,161	2,386	4,429	4,967
FHLB advances and other borrowings	235	685	523	1,553
Subordinated debentures	77	77	153	152
Total interest expense	2,473	3,148	5,105	6,672
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	10,336	6,842	19,438	13,502
PROVISION FOR LOAN LOSSES	1,300	639	1,406	1,695
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,036	6,203	18,032	11,807
NONINTEREST INCOME (LOSS)				
Loan servicing fees	160	142	377	212
Deposit fees	635	208	1,083	396
Net loss from sales of loans	(2,547)	(1,625)	(2,461)	(2,640)
Net gain from sales of investment securities	316	287	480	374
Other-than-temporary impairment loss on investment securities, net	(154)	(330)	(368)	(656)
Gain on FDIC transaction	-	-	4,189	-
Other income	497	280	846	550
Total noninterest income (loss)	(1,093)	(1,038)	4,146	(1,764)
NONINTEREST EXPENSE				
Compensation and benefits	3,489	2,052	6,670	4,065
Premises and occupancy	878	645	1,678	1,271
Data processing and communications	347	229	648	413
Other real estate owned operations, net	167	537	430	832
FDIC insurance premiums	303	334	567	682
Legal and audit	501	264	893	389
Marketing expense	328	208	557	357
Office and postage expense	194	128	361	251
Other expense	648	411	1,410	870
Total noninterest expense	6,855	4,808	13,214	9,130

NET INCOME BEFORE INCOME TAXES	1,088	357	8,964	913
INCOME TAX	303	20	3,407	120
NET INCOME	$ 785	$ 337	$ 5,557	$ 793
EARNINGS PER SHARE				
Basic	$ 0.08	$ 0.03	$ 0.55	$ 0.08
Diluted	$ 0.08	$ 0.03	$ 0.52	$ 0.07
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	10,084,626	10,033,836	10,067,066	10,033,836
Diluted	10,578,928	11,059,994	10,717,257	11,040,612

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(dollars in thousands)
(unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2010	10,033,836	$ 100	$ 79,942	$ (526)	$ (914)		$ 78,602
Comprehensive Income:							
Net income				5,557		$ 5,557	5,557
Unrealized holding gains on securities arising during the period, net of tax						1,426	
Reclassification adjustment for net gain on sale of securities included in net income, net of tax						(336)	
Net unrealized gain on securities, net of tax					1,090	1,090	1,090
Total comprehensive income						$ 6,647	
Share-based compensation expense			196				196
Common stock repurchased and	(10,610)	(1)	(69)				(70)

retired							
Warrants purchased and retired			(3,660)				(3,660)
Warrants exercised	41,400	1	31				32
Stock options exercised	20,000	1	69				70
Balance at June 30, 2011	10,084,626	$ 101	$ 76,509	$ 5,031	$ 176		$ 81,817
Balance at December 31, 2009	10,033,836	$ 100	$ 79,907	$ (4,764)	$ (1,741)		$ 73,502
Comprehensive Income:							
Net income				793		$ 793	793
Unrealized holding gains on securities arising during the period, net of tax						1,122	
Reclassification adjustment for net loss on sale of securities included in net income, net of tax						77	
Net unrealized gain on securities, net of tax					1,199	1,199	1,199
Total comprehensive income						$ 1,992	
Share-based compensation expense			10				10
Balance at June 30, 2010	10,033,836	$ 100	$ 79,917	$ (3,971)	$ (542)		$ 75,504

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

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,557	$ 793
Adjustments to net income:		
Depreciation and amortization expense	561	489
Provision for loan losses	1,406	1,695

Share-based compensation expense	196	10
Loss on sale and disposal of premises and equipment	63	12
Loss on sale of other real estate owned	21	191
Write down of other real estate owned	-	504
Amortization of premium/discounts on securities held for sale, net	389	233
Amortization of mark-to-market discount	(807)	-
Gain on sale of investment securities available for sale	(480)	(374)
Other-than-temporary impairment loss on investment securities, net	368	656
Loss on sale of loans held for investment	2,461	2,640
Gain on FDIC transaction	(4,189)	-
Deferred income tax provision	265	476
Change in accrued expenses and other liabilities, net	(3,695)	(392)
Income from bank owned life insurance, net	(260)	(269)
Change in accrued interest receivable and other assets, net	4,152	(1,067)
Net cash provided by operating activities	6,008	5,597
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	49,386	54,431
Net change in undisbursed loan funds	11,096	(4,326)
Purchase and origination of loans held for investment	(58,938)	(34,196)
Proceeds from sale of other real estate owned	9,626	4,355
Principal payments on securities available for sale	8,977	6,328
Purchase of securities available for sale	(19,612)	(106,048)
Proceeds from sale or maturity of securities available for sale	43,141	60,796
Purchases of premises and equipment	(2,471)	(331)
Redemption (purchase) of Federal Reserve Bank stock	155	(420)
Redemption of Federal Home Loan Bank of San Francisco stock	1,009	-
Cash acquired in FDIC transaction	26,389	473

Net cash provided by (used in) investing activities		68,758		(18,938)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net increase (decrease) in deposit accounts		(47,568)		13,309
Repayment of FHLB advances and other borrowings		(40,000)		(25,000)
Proceeds from exercise of stock options		32		-
Warrants purchased and retired		(3,660)		-
Net cash used in financing activities		(91,196)		(11,691)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(16,430)		(25,032)
CASH AND CASH EQUIVALENTS, beginning of period		63,462		59,706
CASH AND CASH EQUIVALENTS, end of period	$	47,032	$	34,674

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

	Six Months Ended June 30,			
		2011		2010
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Interest paid	$	5,030	$	6,658
Income taxes paid		2,445		1,035
Assets acquired (liabilities assumed) in acquisition:				
Investment securities		14,076		-
FDIC receivable		2,838		-
Loans		149,739		-
Core deposit intangible		2,270		-
Other real estate owned		11,953		-
Fixed assets		42		-
Other assets		1,599		-
Deposits		(204,678)		-
Other liabilities		(39)		-
NONCASH INVESTING ACTIVITIES DURING THE PERIOD				
Transfers from loans to other real estate owned	$	2,107	$	3,530

Investment securities available for sale purchased and not settled	$ 5,083	$ 8,275

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(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," "we," "our" or "us"). All significa intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of June 30, 2011, December 31, 2010, and June 30, 2010, the results of its operations for the three and six months ended June 30, 2011 and 2010 and the changes in stockholders' equity, comprehensive income and cash flows for the six months ended June 30, 2011 and 2010. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending December 31, 2011.

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, 2010.

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

Note 2 – Recently Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 revised two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company's disclosures about fair value measurements are presented in Note 9 – Fair Value Disclosures. These new disclosure requirements were effective for the period ended June 30, 2011, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company's financial statement disclosure upon adoption of this ASU.

FASB ASU No. 2011-01, Receivables (Topic 310), Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20, was issued by FASB in January 2011. ASU 2011-01 temporarily delays the effective date of the disclosures about troubled debt restructurings ("TDRs") in Update 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a TDR. The effective date of the new disclosures about TDR and the guidance for determining what constitutes a TDR is anticipated to be effective for interim and annual periods ending after June 15, 2011.

Future Application of Accounting Pronouncements

The following accounting pronouncement has been issued by the FASB but is not yet effective: ASU 2011-02, Receivables (Topic 310), A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 provides guidance clarifying under what circumstances a creditor should classify a restructured receivable as a TDR. A receivable is a TDR if both of the following exist: 1) a creditor has granted a concession to the debtor, and 2) the debtor is experiencing financial difficulties. ASU 2011-02 clarifies that a creditor should consider all aspects of a restructuring when evaluating whether it has granted a concession, which include determining whether a debtor can obtain funds from another source at market rates and assessing the value of additional collateral and guarantees obtained at the time of restructuring. ASU 2011-02 also provides factors a creditor should consider when determining if a debtor is experiencing financial difficulties, such as probability of payment default and bankruptcy declarations. ASU 2011-02 will become effective for us in third quarter 2011 with retrospective application to January 1, 2011. Early adoption is permitted. We are evaluating the impact these accounting changes may have on our consolidated financial statements.

Note 3 – Canyon National Bank Acquisition

Effective February 11, 2011, the Bank acquired certain assets and assumed certain liabilities of Canyon National Bank ("Canyon National") from the FDIC as receiver for Canyon National (the "Canyon National Acquisition"), pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on February 11, 2011. The Canyon National Acquisition included the three branches of Canyon National, all of which became branches of the Bank upon consummation of the Canyon National Acquisition. As a result of the Canyon National Acquisition, the Bank acquired and received certain assets with a fair value of approximately $208.9 million, including $149.7 million of loans, $16.1 million of a FDIC receivable, $13.2 million of cash and cash equivalents, $12.8 million of investment securities, $12.0 million of other real estate owned, $2.3 million of a core deposit intangibles, $1.5 million of other assets and $1.3 million of FHLB and Federal Reserve Bank stock. Liabilities with a fair value of approximately $206.6 million were also assumed, including $204.7 million of deposits, $1.9 million in deferred tax liability and $39,000 of other liabilities. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of Financial Accounting Standards Board Accounting Standards Codification Topic 820: Fair Value Measurements and Disclosures. The foregoing fair value amounts are subject to change for up to one year after the closing date of the Canyon National Acquisition as additional information relative to closing date fair values becomes available. The amounts are also subject to adjustments based upon final settlement with the FDIC.

Note 4 – Loans Held for Investment

The following table sets forth the composition of our loan portfolio in dollar amounts at the dates indicated:

	June 30, 2011	December 31, 2010	June 30, 2010
		(in thousands)	
Real estate loans:			

Multi-family	$ 231,604	$ 243,584	$ 258,021
Commercial non-owner occupied	155,419	130,525	136,053
One-to-four family (1)	64,550	20,318	14,243
Land	8,752	-	-
Business loans:			
Commercial owner occupied	147,186	113,025	108,465
Commercial and industrial	92,502	54,687	33,743
SBA	4,682	4,088	3,346
Other loans	6,497	1,417	1,869
Total gross loans (2)	711,192	567,644	555,740
Less loans held for sale	-	-	-
Total gross loans held for investment	711,192	567,644	555,740
Less (plus):			
Deferred loan origination costs (fees) and premiums (discounts)	(3,096)	(3,227)	(3,548)
Allowance for loan losses	(8,517)	(8,879)	(9,169)
Loans held for investment, net	$ 699,579	$ 555,538	$ 543,023

(1) Includes second trust deeds.
(2) Total gross loans for June 30, 2011 is net of the mark-to-market discount on Canyon National loans of $10.5 million.

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

The Company grants residential and commercial loans held for investment to customers located primarily in Southern California. Consequently, the underlying collateral for our loans and a borrower's ability to repay may be impacted unfavorably by adverse changes in the economy and real estate market in the region.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $22.7 million for secured loans and $13.6 million for unsecured loans at June 30, 2011. At June 30, 2011, the Bank's largest aggregate outstanding balance of loans to one borrower was $11.3 million of secured credit.

Purchase Credit Impaired

The following table provides a summary of the Company's investment in purchase credit impaired loans, acquired from Canyon National, as of the period indicated:

	June 30, 2011 (in thousands)

Real estate loans:		
Commercial non-owner occupied	$	463
One-to-four family		1,350
Construction		-
Land		2,523
Business loans:		
Commercial owner occupied		4,227
Commercial and industrial		1,907
Total purchase credit impaired	$	10,470

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the "accretable yield". The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan.

The following table summarizes the accretable yield on the purchased credit impaired for the six months ended June 30, 2011:

	Six Months Ended June 30, 2011 (in thousands)	
Balance at the beginning of period	$	-
Accretable yield at acquisition		4,692
Accretion		(296)
Disposals and other		(1,130)
Change in accretable yield		-
Balance at the end of		3,266

period

Impaired Loans

The following table provides a summary of the Company’s investment in impaired loans as of and for the quarter ended June 30, 2011, and as of and for the year ended December 31, 2010:

	Impaired Loans						
	Recorded Investment	Unpaid Principal Balance	With Specific Allowance	Without Specific Allowance (in thousands)	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
June 30, 2011							
Real estate loans:							
Multi-family	$4,149	$4,149	$-	$4,149	$-	$2,786	$ 52
Commercial investor	3,427	3,427	462	2,965	44	2,736	82
One-to-four family	1,569	1,567	-	1,567	-	2,893	42
Construction	-	-	-	-	-	309	-
Land	2,523	2,523	-	2,523	-	2,627	54
Business loans:							
Commercial owner occupied	5,267	5,124	-	5,124	-	5,945	124
Commercial and industrial	2,143	2,143	-	2,143	-	4,200	61
SBA	1,659	930	-	930	-	1,001	28
Other loans	22	22	-	22	-	9	2
Totals	$20,759	$19,885	$462	$19,423	$44	$22,506	$ 445

	Impaired Loans						
	Recorded Investment	Unpaid Principal Balance	With Specific Allowance	Without Specific Allowance (in thousands)	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
December 31, 2010							
Real estate loans:							
Multi-family	$1,156	$1,156	$-	$1,156	$-	$2,114	$ 94
Commercial investor	2,068	2,068	465	1,603	47	1,949	127
One-to-four family	223	224	-	223	-	249	15
Business loans:							
	2,225	2,342	-	2,225	-	1,332	-

Commercial owner occupied							
Commercial and industrial	54	169	-	54	-	270	14
SBA	1,092	1,751	-	1,092	-	970	14
Totals	$6,818	$7,710	$465	$6,353	$47	$6,882	$ 264

The following table summarizes impaired loan balances for the period indicated below:

	June 30, 2010 (in thousands)
Impaired loans without a valuation allowance	$ 5,028
Imparied loans with a valuation allowance	$ 476
Valuation allowance related to impaired loans	$ 56
Average recorded investment in impaired loans for the six months ended June 30, 2010	$ 7,517

The Company considers a loan to be impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or it is determined that the likelihood of the Company receiving all scheduled payments, including interest, when due is remote. The Company has no commitments to lend additional funds to debtors whose loans have been impaired.

The Company reviews loans for impairment when the loan is classified as substandard or worse, delinquent 90 days, or determined by management to be collateral dependent, or when the borrower files bankruptcy or is granted a TDR. Measurement of impairment is based on the loan's expected future cash flows discounted at the loan's effective interest rate, measured by reference to an observable market value, if one exists, or the fair value of the collateral if the loan is deemed collateral dependent. All loans are generally charged-off at such time the loan is classified as a loss. Valuation allowances are determined on a loan-by-loan basis or by aggregating loans with similar risk characteristics.

The following table provides additional detail on the components of impaired loans at the period end as indicated below.

	June 30, 2011	December 31, 2010	June 30, 2010
		(in thousands)	
Nonaccruing loans	$ 10,808	$ 3,270	$ 5,504
Accruing loans	9,077	3,548	42
Total impaired loans	$ 19,885	$ 6,818	$ 5,546

When loans are placed on nonaccrual status all accrued interest is reversed from earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further loss is remote, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual.

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status at June 30, 2011 of $10.8 million, December 31, 2010 of $3.3 million, and June 30, 2010 of $5.5 million. At June 30, 2011, the Company had $10.5 million of purchased credit impaired loans acquired from Canyon National, of which $3.3 million were placed on nonaccrual status. The Company had no loans 90 days or more past due and still accruing at June 30, 2011, December 31, 2010 or June 30, 2010.

Concentration of Credit Risk

The Company's loan portfolio was collateralized by various forms of real estate and business assets located principally in Southern California. The Company's loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied business loans. The Company maintains Board approved policies that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that further significant deterioration in the California real estate market and economy would not expose the Company to significantly greater credit risk.

Credit Quality and Credit Risk Management

The Company's credit quality is maintained and credit risk managed in two distinct areas. The first is the loan origination process, wherein the Bank underwrites credit quality and chooses which risks it is willing to accept. The second is in the ongoing oversight of the loan portfolio, where existing credit risk is measured and monitored, and where performance issues are dealt with in a timely and comprehensive fashion.

The Company maintains a comprehensive credit policy which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed annually by the Board of Directors. Seasoned underwriters ensure all key risk factors are analyzed with nearly all underwriting including a comprehensive global cash flow analysis. The credit approval process mandates multiple-signature approval by either the management or Board credit committee for every loan which requires any subjective credit analysis.

Credit risk is managed within the loan portfolio by the Company's Portfolio Management department based on a comprehensive credit and investment review policy. This policy requires a program of financial data collection and analysis, comprehensive loan reviews, property and/or business inspections and monitoring of portfolio concentrations and trends. The Portfolio Management department also monitors asset-based lines of credit, loan covenants and other conditions associated with the Company's business loans as a means to help identify potential credit risk. Individual loans, excluding the homogeneous loan portfolio, are reviewed at least biennially, or more frequently, if deemed necessary, and includes the assignment of a risk grade.

Risk grades are based on a six-grade Pass scale, along with Special Mention, Substandard, Doubtful and Loss classifications as such classifications are defined by the regulatory agencies. The assignment of risk grades allows the Company to, among other things, identify the risk associated with each credit in the portfolio, and to provide a basis for estimating credit losses inherent in the portfolio. Risk grades are reviewed regularly by the Company's Credit and Investment Review committee, and are reviewed annually by an independent third-party, as well as by regulatory agencies during scheduled examinations.

The following provides brief definitions for risk grades assigned to loans in the portfolio:

- Pass – Pass credits are well protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Such credits exhibit few weaknesses, if any, but may include credits with exposure to certain factors that may adversely impact the credit if they materialize. The Company has established six subcategories within the pass grade to stratify risk associated with pass loans. The Company maintains a subset of pass credits designated as "watch" loans which, for any of a variety of reasons, requires close monitoring.

- Special Mention – Loans graded special mention exhibit potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan or the institution's credit position. Special mention credits are not considered as part of the classified extensions of credit category and do not expose the Company to sufficient risk to warrant classification.

- Substandard – Substandard credits are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Extensions of credit classified as substandard have a well-defined weakness or weaknesses that jeopardizes the orderly payment of the debt. Substandard credits are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard credits, does not have to exist in individual extensions of credit classified substandard.

- Doubtful – Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage of and strengthen the credit, its classification as an estimated loss is deferred until its more exact status may be determined.

The Portfolio Management department also manages loan performance risks, collections, workouts, bankruptcies and foreclosures. Loan performance risks are mitigated by our portfolio managers acting promptly and assertively to address problem credit when they are identified. Collection efforts are commenced immediately upon non-payment, and the portfolio managers seek to promptly determine the appropriate steps to minimize the Company's risk of loss. When foreclosure will maximize the Company's recovery for a non-performing loan, the portfolio managers will take appropriate action to initiate the foreclosure process.

When a loan is graded as special mention or worse, the Company obtains an updated valuation of the underlying collateral. If the credit in question is also identified as impaired, a valuation allowance, if necessary, is established against such loan or a loss is recognized by a charge to the allowance for loan losses if management believes that the full amount of the Company's recorded investment in the loan is no longer collectable. The Company typically continues to obtain updated valuations of underlying collateral for special mention and classified loans on an annual basis in order to have the most current indication of fair value. Once a loan is identified as impaired, an analysis of the underlying collateral is performed at least quarterly, and corresponding changes in any related valuation allowance are made or balances deemed to be fully uncollectable are charged-off.

The following tables stratifies the loan portfolio by the Company's internal risk grading system as well as certain other information concerning the credit quality of the loan portfolio as of the periods indicated:

	Credit Risk Grades (1)			
	Pass	Special Mention	Substandard	Total Gross Loans

June 30, 2011		(in thousands)		
Real estate loans:				
Multi-family	$ 211,734	$ 13,058	$ 6,812	$ 231,604
Commercial non-owner occupied	149,974	604	4,841	155,419
One-to-four family	59,991	1,951	2,608	64,550
Land	8,367	-	385	8,752
Business loans:				
Commercial owner occupied	131,777	6,376	9,033	147,186
Commercial and industrial	85,903	1,665	4,934	92,502
SBA	4,474	-	208	4,682
Other loans	6,396	-	101	6,497
Totals	$ 658,616	$ 23,654	$ 28,922	$ 711,192

(1) Amounts are net of the mark-to-market discount on Canyon National loans of $10.5 million.

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
December 31, 2010		(in thousands)		
Real estate loans:				
Multi-family	$ 226,270	$ 13,161	$ 4,153	$ 243,584
Commercial non-owner occupied	124,513	577	5,435	130,525
One-to-four family	19,823	-	495	20,318
Business loans:				
Commercial owner occupied	104,475	4,074	4,476	113,025
Commercial and industrial	53,188	360	1,139	54,687
SBA	2,956	-	1,132	4,088
Other loans	1,417	-	-	1,417
Totals	$ 532,642	$ 18,172	$ 16,830	$ 567,644

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
June 30, 2010		(in thousands)		

Real estate loans:				
Multi-family	$ 227,777	$ 26,376	$ 3,868	$ 258,021
Commercial non-owner occupied	128,484	3,167	4,402	136,053
One-to-four family	13,713	-	530	14,243
Business loans:				-
Commercial owner occupied	99,540	5,827	3,098	108,465
Commercial and industrial	33,743	-	-	33,743
SBA	2,072	384	890	3,346
Other loans	1,869	-	-	1,869
Totals	$ 507,198	$ 35,754	$ 12,788	$ 555,740

	Days Past Due (1)				
	30-59	60-89	90+	Total Past Due	Non-Accruing
June 30, 2011			(in thousands)		
Real estate loans:					
Multi-family	$ -	$ -	$ 2,705	$ 2,705	$ 3,011
Commercial investor	328	989	822	2,139	2,502
One-to-four family	116	518	325	959	332
Land	62	-	257	-	257
Business loans:				-	
Commercial owner occupied	852	1,709	1,869	4,430	1,869
Commercial and industrial	1,089	20	1,078	2,187	2,063
SBA	72	-	720	792	834
Other loans	37	26	19	82	20
Totals	$ 2,556	$ 3,262	$ 7,795	$ 13,294	$ 10,888

(1) Amounts are net of the mark-to-market discount on Canyon National loans.

	Days Past Due				
	30-59	60-89	90+	Total Past Due	Non-Accruing
December 31, 2010			(in thousands)		
Real estate loans:					

Commercial investor	$ 617	$ -	$ -	$ 617	$ -
One-to-four family	402	17	20	439	26
Business loans:				-	
Commercial owner occupied	184	-	2,225	2,409	2,225
Commercial and industrial	-	-	-	-	54
SBA	-	-	846	846	971
Totals	$ 1,203	$ 17	$ 3,091	$ 4,311	$ 3,277