UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended August 4, 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: 0-19714

E COM VENTURES, INC.

(Exact name of Registrant as specified in its charter)

Florida	**65-0977964**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
251 International Parkway	**33325**

Sunrise, Florida
(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number, including area code: (954) 335-9100

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. (Check One):

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

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

The number of shares outstanding of the registrant s common stock, as of the latest practicable date: At September 17, 2007 there were 3,059,041 outstanding shares of its common stock, $0.01 par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

E COM VENTURES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	August 4, 2007	February 3, 2007
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 1,260,384	$ 1,282,546
Trade receivables, no allowance required	1,430,497	954,664
Deferred tax asset-current	4,230,584	2,821,584
Inventories, net	106,686,479	78,427,029
Prepaid expenses and other current assets	2,004,773	3,469,201
Total current assets	115,612,717	86,955,024
Property and equipment, net	32,984,083	30,213,222
Goodwill	1,904,448	1,904,448
Deferred tax asset-non-current	6,288,032	6,288,032
Other assets, net	323,813	388,099
Total assets	$ 157,113,093	$ 125,748,825
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable, non-affiliates	$ 19,650,452	$ 16,748,142
Accounts payable, affiliates	41,016,708	24,110,130
Accrued expenses and other liabilities	7,652,583	7,502,546
Bank line of credit	40,763,988	26,919,115
Current portion of obligations under capital leases	361,903	345,424
Total current liabilities	109,445,634	75,625,357
Subordinated convertible note payable - affiliate	5,000,000	5,000,000
Long-term portion of obligations under capital leases	7,360,844	7,552,915
Total liabilities	121,806,478	88,178,272
Commitments and contingencies (see Note 6)		
Shareholders' equity:		
Preferred stock, $.10 par value, 1,000,000 shares authorized, none issued		
Common stock, $.01 par value, 6,250,000 shares authorized; 3,957,290 and 3,950,664 shares issued in fiscal years 2007 and 2006, respectively	39,573	39,507
Additional paid-in capital	79,105,950	79,069,780
Accumulated deficit	(35,261,964)	(32,961,790)
Treasury stock, at cost, 898,249 shares	(8,576,944)	(8,576,944)

Total shareholders' equity	35,306,615	37,570,553
Total liabilities and shareholders' equity	$ 157,113,093	$ 125,748,825

See accompanying notes to condensed consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Thirteen Weeks Ended August 4, 2007	Thirteen Weeks Ended July 29, 2006	Twenty-Six Weeks Ended August 4, 2007	Twenty-Six Weeks Ended July 29, 2006
Net sales to:				
Unrelated customers	$ 51,983,009	$ 48,865,787	$ 94,480,136	$ 91,074,032
Related parties	21,407,555	1,184,478	27,048,980	5,045,218
	73,390,564	50,050,265	121,529,116	96,119,250
Cost of goods sold to:				
Unrelated customers	28,256,898	26,919,016	50,871,166	50,225,698
Related parties	20,138,125	1,121,588	25,339,740	4,725,107
	48,395,023	28,040,604	76,210,906	54,950,805
Gross profit	24,995,541	22,009,661	45,318,210	41,168,445
Operating expenses:				
Selling, general and administrative	22,819,824	20,655,390	43,914,570	39,437,429
Depreciation and amortization	1,390,256	1,172,892	2,722,957	2,306,938
Total operating expenses	24,210,080	21,828,282	46,637,527	41,744,367
Income (loss) from operations	785,461	181,379	(1,319,317)	(575,922)
Interest expense	(1,302,573)	(1,123,304)	(2,389,857)	(2,095,303)
Loss before income taxes	(517,112)	(941,925)	(3,709,174)	(2,671,225)
Income tax benefit	196,000	346,000	1,409,000	780,000
Net loss	$ (321,112)	$ (595,925)	$ (2,300,174)	$ (1,891,225)
Net loss per common share:				
Basic	$ (0.10)	$ (0.20)	$ (0.75)	$ (0.64)
Diluted	$ (0.10)	$ (0.20)	$ (0.75)	$ (0.64)
Weighted average number of common shares outstanding:				
Basic	3,058,935	2,990,164	3,058,553	2,975,182
Diluted	3,058,935	2,990,164	3,058,553	2,975,182

See accompanying notes to condensed consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Twenty-six Weeks Ended August 4, 2007	Twenty-six Weeks Ended July 29, 2006
Cash flows from operating activities:		
Net loss	$ (2,300,174)	$ (1,891,225)
Adjustments to reconcile net loss to net cash used in operating activities:		
Addition to deferred tax assets	(1,409,000)	(833,905)
Provision for impairment of assets and store closing	75,932	68,024
Depreciation and amortization	2,722,957	2,306,938
Change in operating assets and liabilities:		
Trade receivables	(475,833)	(371,688)
Inventories	(28,259,450)	(9,002,607)
Prepaid expenses and other assets	1,528,375	561,515
Accounts payable, non-affiliates	2,902,310	(2,097,427)
Accounts payable, affiliates	16,906,578	(350,415)
Accrued expenses and other liabilities	150,037	(741,127)
Net cash used in operating activities	(8,158,268)	(12,351,917)
Cash flows from investing activities:		
Additions to property and equipment	(5,569,411)	(3,007,949)
Net cash used in investing activities	(5,569,411)	(3,007,949)
Cash flows from financing activities:		
Net borrowings under bank line of credit	13,844,873	15,457,302
Principal payments under capital lease obligations	(175,592)	(158,788)
Proceeds from exercise of stock options	36,236	334,895
Net cash provided by financing activities	13,705,517	15,633,409
(Decrease) increase in cash and cash equivalents	(22,162)	273,543
Cash and cash equivalents at beginning of period	1,282,546	1,260,444
Cash and cash equivalents at end of period	$ 1,260,384	$ 1,533,987

See accompanying notes to condensed consolidated financial statements.

Supplemental Information:

Cash paid during the period for interest	$ 2,089,031	$ 2,111,804

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E COM VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 OPERATIONS AND BASIS OF PRESENTATION

E Com Ventures, Inc., a Florida corporation (ECOMV or the Company), performs all of its operations through two wholly-owned subsidiaries, Perfumania, Inc. (Perfumania), a Florida corporation, which is a specialty retailer and wholesaler of fragrances and related products, and perfumania.com, Inc., ("perfumania.com"), a Florida corporation, which is an Internet retailer of fragrances and other specialty items.

Perfumania is a leading specialty retailer and wholesale distributor of a wide range of brand name and designer fragrances. As of August 4, 2007, Perfumania operated a chain of 276 retail stores specializing in the sale of fragrances and related products at discounted prices up to 75% below the manufacturers' suggested retail prices. Perfumania's wholesale division distributes fragrances and related products primarily to an affiliate. Perfumania.com offers a selection of the Company s more popular products for sale over the Internet and serves as an alternative shopping experience to the Perfumania retail stores.

The condensed consolidated financial statements include the accounts of ECOMV and subsidiaries (collectively, the Company). All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and note disclosures normally included in annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to those rules and regulations. The financial information presented herein, which is not necessarily indicative of results to be expected for the current fiscal year, reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the interim unaudited condensed consolidated financial statements. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K, as amended, for the fiscal year ended February 3, 2007.

NOTE 2 ACCOUNTING FOR SHARE-BASED PAYMENT

The Company has two stock option plans which provide for equity-based awards to its employees and directors (collectively, the Plans). Under the Plans, the Company has reserved approximately 1,000,000 shares of common stock, of which approximately 585,000 options have been granted and approximately 145,000 options are outstanding. All stock options have an exercise price that is equal to the fair market value of the Company s stock on the date the options were granted. The term of the stock option awards is ten years from the date of grant. All granted and outstanding options are fully vested.

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The following is a summary of the stock option activity during the twenty-six weeks ended August 4, 2007:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding and exercisable as of February 3, 2007	149,026	$ 12.39		
Granted				
Exercised	(4,330)	6.50		
Forfeited				
Outstanding and exercisable as of August 4, 2007	144,696	$ 12.57	6.59	$ 1,652,380

The aggregate intrinsic value in the table above is the amount before applicable income taxes which would have been received by the optionees based on the Company s closing stock price as of the last business day of the respective period had all options been exercised on that date. During the twenty-six weeks ended August 4, 2007, the total intrinsic value of stock options exercised was approximately $139,000.

Effective January 29, 2006, the beginning of the Company s first fiscal quarter of 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS No. 123R), as interpreted by the SEC in Staff Accounting Bulletin No. 107 and began recording compensation expense associated with stock options. SFAS No. 123R requires companies to recognize in the statement of operations the cost of employee services received in exchange for awards of equity instruments based on the grant date fair value of those awards (with limited exceptions). Prior to the adoption of SFAS No. 123R, the Company accounted for stock-based employee compensation using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees . Accordingly, compensation expense had only been recorded in the consolidated financial statements for any stock options granted below the fair market value of the underlying stock as of the date of grant.

The Company adopted the modified prospective transition method provided for under SFAS No. 123R and accordingly, prior period results were not retroactively adjusted. The modified prospective transition method requires that stock-based compensation expense be recorded for (i) all new stock options granted on or after January 29, 2006 based on the grant date fair value determined under the provisions of SFAS No. 123R and (ii) all unvested stock options granted prior to January 29, 2006 based on the grant date fair value as determined under the provisions of SFAS No. 123. Results for prior periods were not restated, as provided for under the modified prospective transition method.

During the twenty-six weeks ended August 4, 2007 and July 29, 2006, the Company did not recognize any share based compensation expense in the consolidated financial statements since no stock options were granted nor were there any modifications of outstanding stock options during both twenty-six week periods. In addition, all stock options outstanding as of February 3, 2007 and January 28, 2006 were fully vested.

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NOTE 3 BANK LINE OF CREDIT AND SUBORDINATED CONVERTIBLE NOTE PAYABLE, AFFILIATE

The bank line of credit and subordinated convertible note payable, affiliate consist of the following:

	August 4, 2007	February 3, 2007
Bank line of credit, which is classified as a current liability, interest payable monthly, secured by a pledge of substantially all of Perfumania s assets	$ 40,763,988	$ 26,919,115
Subordinated convertible note payable affiliate - long term	$ 5,000,000	$ 5,000,000

Perfumania s senior secured credit facility provides for borrowings of up to $60 million, depending on the Company s level of eligible inventories. Advances under the line of credit are based on a formula of eligible inventories and bear interest at a floating rate ranging from (a) prime to prime plus 1.25% or (b) LIBOR plus 2.5% to 3.75% depending on a financial ratio test. As of August 4, 2007, $40.8 million was outstanding under the line of credit and $19.2 million was available to support normal working capital requirements and other general corporate purposes based upon our eligible borrowing base, subject to the restrictions concerning minimum undrawn availability discussed below. Advances are secured by a first lien on all assets of Perfumania. The credit facility contains limitations on additional borrowings, capital expenditures and other items, and contains various covenants including a fixed charge coverage ratio, a leverage ratio and capital expenditure limits as defined. In December 2006, the credit facility was amended with an effective date of September 30, 2006, to extend the term for one additional year until May 2008. In June 2007, the covenant concerning the limitation on capital expenditures was modified retroactive to April 30, 2007. In addition, the minimum undrawn availability requirement, as defined, was modified so that Perfumania is required to maintain at all times, a minimum undrawn availability of not less than $5,000,000, and shall maintain a monthly average undrawn availability, as defined, of not less than $7,500,000. Perfumania was in compliance with all covenant requirements as of August 4, 2007. Management does not anticipate any difficulty in refinancing the credit facility with the existing lender or obtaining a new facility with an alternate lender prior to the expiration of the existing facility s term in May 2008.

In the fourth quarter of fiscal year 2004, the Company issued a Subordinated Convertible Note (the "Note") in exchange for a $5,000,000 subordinated secured demand loan made to the Company in the first quarter of fiscal year 2004 by Glenn and Stephen Nussdorf (the Nussdorfs). As of August 4, 2007, the Nussdorfs owned approximately 36% of the Company s outstanding common stock and they are officers and shareholders of Model Reorg, Inc. (Model) and its affiliate Quality King Distributors, Inc. (Quality King) and their subsidiaries, including Quality King Fragrances. Model is a diversified wholesale and retail fragrance company and Quality King distributes pharmaceuticals and health and beauty care products. The Company s President and Chief Executive Officer, Michael W. Katz, is an executive of Model and Quality King. Stephen Nussdorf is the Chairman of the Company s Board of Directors. The initial maturity of the Note was January 2007; however the Note was modified in April 2006 to extend the due date to January 2009. The Note bears interest at the prime rate plus 1%, requires quarterly interest payments and is secured by a security interest in the Company s assets pursuant to a Security Agreement, by and among the Company and the Nussdorfs. There are no prepayment penalties and the Note is subordinate to all bank related indebtedness. The Note allows the Nussdorfs to convert the Note into shares of the Company s common stock at a conversion price of $11.25, which was equivalent to the closing market price of the Company s common stock on the date of the exchange. See Note 7 for discussion of a merger offer received from Model.

NOTE 4 ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, (FIN 48) effective February 4, 2007. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in an income tax return. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

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As a result of the implementation of FIN 48, the Company did not recognize a liability for unrecognized tax benefits, and accordingly, was not required to record any cumulative effect adjustment to beginning of year retained earnings. As of both the date of adoption and August 4, 2007, there was no material liability for income tax associated with unrecognized tax benefits.

The Company recognizes interest accrued related to unrecognized tax benefits as well as any related penalties in operating expenses in its condensed consolidated statements of operations, which is consistent with the recognition of these items in prior reporting periods. As of the date of adoption, the Company was not required to have an accrual for the payment of interest and penalties. No accrual for interest and penalties related to uncertain tax positions was required during the twenty-six weeks ended August 4, 2007.

The Company operates stores throughout the United States and Puerto Rico, and as a result, files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities. The statute of limitations for examinations by the Internal Revenue Service has expired for years ending before January 31, 2004.

State and foreign income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. The Company is not currently under examination in any state or foreign jurisdictions.

The Company does not anticipate any material adjustments relating to unrecognized tax benefits within the next twelve months, however the outcome of tax matters is uncertain and unforeseen results can occur.

NOTE 5 BASIC AND DILUTED LOSS PER COMMON SHARE

Basic loss per common share has been computed by dividing net loss by the weighted average number of common shares outstanding during the period. For all periods presented in the accompanying condensed consolidated statements of operations, incremental shares attributed to outstanding stock options and convertible notes were not included because the results would be anti-dilutive.

NOTE 6 CONTINGENCIES

The Company is involved in various legal proceedings in the ordinary course of business. Management cannot presently predict the outcome of these matters, although management believes that the ultimate resolution of these matters will not have a materially adverse effect on the Company's financial position, operations or cash flows.

NOTE 7 RELATED PARTY TRANSACTIONS

The Company sold approximately $21.4 million and $1.2 million of wholesale merchandise to Model and its subsidiaries for the second thirteen weeks of fiscal 2007 and 2006, respectively. For the first twenty-six weeks of fiscal 2007 and 2006, sales of wholesale merchandise to Model and its subsidiaries were approximately $27.0 million and $5.0 million, respectively. See further discussion at Item 2 Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations in this form 10-Q regarding significant increases in wholesale sales volume. For all periods presented, substantially all of the Company s wholesale sales were to Model and its subsidiaries. The wholesale sales to Model and its subsidiaries result from the Company s supplier relationships and its ability to obtain certain merchandise at better prices and in greater quantities than Model and its subsidiaries are able to achieve. These wholesale sales are included in net sales-related parties on the accompanying condensed consolidated statements of operations. There were no accounts receivable due from Model and its subsidiaries as of August 4, 2007 and February 3, 2007, respectively.

Purchases of product from Parlux Fragrances, Inc. (Parlux), a manufacturer and distributor of prestige fragrances and beauty products, and Model and its subsidiaries were approximately $20.9 million and $7.6 million for the second thirteen weeks of fiscal

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2007 and 2006 representing approximately 36% and 29% of the Company s total inventory purchases, respectively. For the first twenty-six weeks of fiscal 2007 and 2006, purchases of product from these related parties were $32.7 million and $21.8 million representing approximately 32% and 35% of the Company s total inventory purchases, respectively. The amounts due to Parlux at August 4, 2007 and February 3, 2007 was approximately $18.3 million and $7.2 million, respectively. The amounts due to Model and its subsidiaries at August 4, 2007 and February 3, 2007 was approximately $22.7 million and $16.9 million, respectively. These amounts are non-interest bearing and are included in accounts payable, affiliates in the accompanying condensed consolidated balance sheets. Purchases from related parties are generally payable in 90 days, however, due to the seasonality of the Company s business, these terms are generally extended. Related party accounts are historically brought closer to terms at the end of the holiday season, however, we are dependent upon these extended terms for much of our liquidity during the year.

Glenn Nussdorf (Mr. Nussdorf) has filed beneficial ownership forms with the SEC indicating that he has acquired approximately 12% of Parlux s common stock outstanding. In February 2007, Mr. Nussdorf reached an agreement with Parlux which called for equal representation in Parlux s Board of Directors by the then current independent directors and Mr. Nussdorf s nominees. Accordingly, Mr. Nussdorf s three nominees were appointed to the Parlux Board, and one of the these nominees currently serves as Parlux s Chief Executive Officer.

As previously reported, in a letter dated November 10, 2006, the Company s Board of Directors received a merger offer from Model. Pursuant to the terms of the proposed offer, Model would be merged into a newly formed wholly-owned subsidiary of the Company in exchange for the issuance of approximately 6.4 million shares of the Company s common stock. In addition, prior to the merger, an unspecified amount of inter-company obligations due from Model to its affiliate, Quality King may be converted into a note payable or preferred stock of Model. Any Model preferred shares would be converted into preferred shares of the Company in connection with the merger. The proposed offer specifies that it is based upon a 20% premium to the Company s common stock closing price as of November 9, 2006 of $13.94, or an effective price of $16.73 per share. Following the merger, the Nussdorfs would own in the aggregate approximately 80% of the Company (assuming the conversion of the Company s subordinated note held by them). The proposed offer, by its terms, is subject to numerous conditions, including approval by a special committee of the Company s Board, comprised of independent directors, and approval by a majority of the disinterested shareholders of the Company. A special committee of the Company s Board has been formed to review and evaluate the proposed offer.

On August 2, 2007, the Company entered into an Information Technology Services Agreement (the Services Agreement) with Model Reorg, Inc. and its subsidiaries, whereby among other services, the Company will manage and monitor the IT systems of Model in exchange for a monthly service fee of $25,000. The Services Agreement terminates 30 days after the effective date of the merger offer discussed above, or if such merger offer is not consummated on or before December 31, 2008, either party may terminate 30 days after providing written notice of termination.

NOTE 8 SEGMENT INFORMATION

Segment information is prepared on the same basis that the Company s management reviews financial information. The Company operates in two reportable industry segments, specialty retail sales and wholesale distribution of fragrances and related products. Retail sales include sales through our internet site, perfumania.com. Substantially all wholesale sales are to Model and its subsidiaries. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 2 of the Notes to our Consolidated Financial Statements included in our 2006 Annual Report on Form 10-K. All of the Company s assets relate to and are owned by the Company s retail segment and the Company does not allocate operating and other expenses to its segments. Accordingly, a reconciliation of segment assets to total assets is not presented. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, there were no intersegment revenues. Financial information for these segments is summarized in the following table.

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	Thirteen Weeks Ended August 4, 2007	Thirteen Weeks Ended July 29, 2006	Twenty-Six Weeks Ended August 4, 2007	Twenty-Six Weeks Ended July 29, 2006
Net sales:				
Retail	$ 51,983,009	$ 48,865,787	$ 94,471,379	$ 91,074,032
Wholesale	21,407,555	1,184,478	27,057,737	5,045,218
	$ 73,390,564	$ 50,050,265	$ 121,529,116	$ 96,119,250
Gross profit:				
Retail	$ 23,726,111	$ 21,948,033	$ 43,607,718	$ 40,849,597
Wholesale	1,269,430	61,628	1,710,492	318,848
	$ 24,995,541	$ 22,009,661	$ 45,318,210	$ 41,168,445

NOTE 9 RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS 157 is effective for the first interim period beginning in fiscal 2008. We are currently evaluating the impact that the adoption of SFAS 157 will have on our results of operations, financial position and cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 will permit entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 will be effective for the first interim period beginning in fiscal 2008. We are currently evaluating the impact that the adoption of SFAS 159 will have on our results of operations, financial position and cash flows.

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

RESULTS OF OPERATIONS

Comparison of the Thirteen Weeks Ended August 4, 2007 with the Thirteen Weeks Ended July 29, 2006.

Net sales increased 46.6% from $50.1 million in the thirteen weeks ended July 29, 2006 to $73.4 million in the thirteen weeks ended August 4, 2007. The increase in sales was due to increases of $20.2 million and $3.1 million in wholesale and retail sales, respectively.

Retail sales were $52.0 million for the thirteen weeks ended August 4, 2007 compared to $48.9 million for the thirteen weeks ended July 29, 2006. The average number of stores operated was 274 in the second quarter of fiscal 2007, versus 241 in the prior year s comparable period which resulted in part in the increase in retail sales. Perfumania s comparable store sales increased by 1.2%. Comparable store sales measure sales from stores that have been open for one year or more. We exclude stores that are closed for renovation from comparable store sales from the month during which renovation commences until the first full month after reopening. While the average retail price per unit sold during the thirteen weeks ended August 4, 2007 increased 6.4% versus the prior year s comparable period, the total number of units sold was substantially unchanged, and the number of units sold in our comparable stores decreased slightly. We attribute the increase in the average retail price per unit sold to increases in the retail selling prices on selected merchandise as well as changes in our product mix. The number of units sold was affected by softness in the United States economy and the resulting weak mall traffic. Also, during the thirteen weeks ended August 4, 2007, we had more stores closed for renovation compared with the thirteen week period ended July 29, 2006 which negatively impacted retail sales.

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Wholesale sales increased $20.2 million from $1.2 million for the thirteen weeks ended July 29, 2006 to $21.4 million for the thirteen weeks ended August 4, 2007. Substantially all wholesale sales during the second quarter of fiscal years 2007 and 2006 were made to Model and its subsidiaries. The increase in wholesale sales is due to significantly more merchandise availability at better prices than had been available from our suppliers in any historical quarter, and an increase in the demand of Model and its subsidiaries product needs. Quarterly wholesale sales are expected to fluctuate due to market conditions, the availability of desirable merchandise and the demand of our wholesale customers, including Model. The volume of wholesale sales in the thirteen weeks ended August 4, 2007 was significantly higher than any of our historical quarterly results, and should not necessarily be considered indicative of wholesale sales volume to be expected in future quarters. See further discussion at Note 7.

Gross profit increased 13.6% from $22.0 million in the thirteen weeks ended July 29, 2006 (44% of total net sales) to $25.0 million in the thirteen weeks ended August 4, 2007 (34% of total net sales). Of the $3.0 million increase in gross profit, $1.8 related to retail sales and $1.2 million related to wholesale sales. In calculating gross profit and gross profit percentages, we exclude the costs related to our distribution center. These costs are included in selling, general and administrative expenses. Our gross profit and gross profit percentages may not be comparable to other retailers, which may include the costs related to their distribution network in cost of goods sold, rather than in selling, general and administrative expenses. The increase in gross profit was due to increases in both retail and wholesale sales volume as discussed above. As a percentage of net sales, total gross profit in the thirteen weeks ended August 4, 2007 decreased as compared to the thirteen weeks ended July 29, 2006 due to the higher ratio of wholesale sales as a percentage of net sales in the thirteen weeks ended August 4, 2007 versus the comparable period last year. Wholesale sales yield a lower gross margin than retail sales. Retail gross profit as a percentage of retail sales was 45.6% and 44.9% for the thirteen weeks ended August 4, 2007 and July 29, 2006, respectively. The increase in gross margin on retail sales resulted principally from increases in retail selling prices on selected merchandise as well as lower cost of merchandise realized over the past twelve months. Wholesale gross profit as a percentage of wholesale sales was 5.9% and 5.2% for the thirteen weeks ended August 4, 2007 and July 29, 2006, respectively. Gross margin on wholesale sales increased slightly due to the change in the product assortment sold in the thirteen weeks ended August 4, 2007 compared to the prior thirteen week period.

Selling, general and administrative expenses include payroll and related benefits for our store operations, field management, distribution center and corporate office; rent, common area maintenance, real estate taxes and utilities for our stores, distribution center and corporate office; advertising, insurance, supplies and other administrative expenses. Selling, general and administrative expenses increased 10.5% from $20.7 million in the thirteen weeks ended July 29, 2006 to $22.8 million in the thirteen weeks ended August 4, 2007. The increase was largely attributable to the increase in new stores and the additional payroll, occupancy and store opening expenses needed to operate these stores. Increases in wholesale sales volume generally results in nominal increases in selling, general and administrative expenses. Depreciation and amortization was approximately $1.4 million in the thirteen weeks ended August 4, 2007 compared to $1.2 million for the thirteen weeks ended July 29, 2006. The increase is attributable to depreciation incurred on new stores that have opened over the past twelve months offset by lower depreciation on certain stores that become fully depreciated during the same time period.

Interest expense was approximately $1.3 million for the thirteen weeks ended August 4, 2007 compared with approximately $1.1 million in the comparable period of 2006. The increase in interest expense was due to a higher average balance on our bank line of credit during the thirteen weeks ended August 4, 2007 compared with the comparable period of 2006 and higher interest rates. The majority of our borrowings incur interest based on either prime or libor and these interest rates have risen over the past year.

An income tax benefit of $0.2 million was recorded as a result of the Company s net loss during the thirteen weeks ended August 4, 2007 compared with a tax benefit of $0.3 million during the comparable period of 2006. The Company s effective tax rate for the thirteen weeks ended August 4, 2007 was a tax benefit of 38% compared to a tax benefit of 37% for the comparative period last year.

As a result of the foregoing, our net loss decreased to approximately ($0.3) million in the thirteen weeks ended August 4, 2007 compared to a net loss of ($0.6) million in the thirteen weeks ended July 29, 2006. Net loss per share for the second fiscal quarter of 2007 and 2006 was ($0.10) and ($0.20), respectively.

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Comparison of the Twenty-six weeks Ended August 4, 2007 with the Twenty-six weeks Ended July 29, 2006.

Net sales increased 26.4% from $96.1 million in the twenty-six weeks ended July 29, 2006 to $121.5 million in the twenty-six weeks ended August 4, 2007. The increase in sales was due to a $22.0 million increase in Perfumania s wholesale sales and a $3.4 million increase in retail sales.

Retail sales increased from $91.1 million in the twenty-six weeks ended July 29, 2006 to $94.5 million in the twenty-six weeks ended August 4, 2007, primarily as a result of the increase in the number of retail stores in operation. The average number of stores operated was 276 in the first twenty-six weeks of fiscal 2007, versus 243 in the prior year s comparable period. Comparable store sales decreased by 0.7% in the twenty-six weeks ended August 4, 2007. While the average retail price per unit sold during the twenty-six weeks ended August 4, 2007 increased 5.1% versus the prior year s comparable period, the total number of units sold decreased 1.0%. We attribute the increase in the average retail price per unit sold to increases in the retail selling prices on selected merchandise as well as changes in our product mix. The number of units sold was affected by softness in the United States economy and the resulting weak mall traffic.

Wholesale sales increased by $22.1 million from $5.0 million for the twenty-six weeks ended July 29, 2006 to $27.1 million for the twenty-six weeks ended August 4, 2007. Substantially all wholesale sales during the twenty-six weeks ended August 4, 2007 and July 29, 2006 were to Model and its subsidiaries. The increase in wholesale sales is due to significantly more merchandise availability at better prices than had been available from our suppliers during the thirteen weeks ended August 4, 2007 than had been available from our suppliers in any historical quarter, and an increase in the demand of Model and its subsidiaries product needs. Quarterly wholesale sales are expected to fluctuate due to market conditions, the availability of desirable merchandise and the demand of our wholesale customers, including Model. The volume of wholesale sales in the thirteen weeks ended August 4, 2007 was significantly higher than any of our historical quarterly results, and should not necessarily be considered indicative of wholesale sales volume to be expected in future quarters. See further discussion at Note 7.

Gross profit increased 10.1% from $41.2 million in the twenty-six weeks ended July 29, 2006 (43% of total net sales) to $45.3 million in the twenty-six weeks ended August 4, 2007 (37% of total net sales). Of the $4.2 million increase in gross profit, $2.8 million related to retail sales and $1.4 million related to wholesale sales. In calculating gross profit and gross profit percentages, we exclude the costs related to our distribution center. These costs are included in selling, general and administrative expenses. Our gross profit and gross profit percentages may not be comparable to other retailers, which may include the costs related to their distribution network in cost of goods sold, rather than in selling, general and administrative expenses. The increase in gross profit was due to increases in both retail and wholesale sales volume as discussed above. As a percentage of net sales, total gross profit in the twenty-six weeks ended August 4, 2007 decreased as compared to the twenty-six weeks ended July 29, 2006 due to the higher ratio of wholesale sales as a percentage of total net sales in the twenty-six weeks ended August 4, 2007 versus the comparable period last year. Historically, retail sales yield a higher gross margin than wholesale sales. Retail gross profit as a percentage of retail sales was 46.2% and 44.9% for the twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively. As a percentage of retail sales, retail gross profit in the twenty-six weeks ended August 4, 2007 increased versus the twenty-six weeks ended July 29, 2006, due to an increase in our retail selling prices as well as a lower cost of merchandise realized over the past twelve months. Wholesale gross profit as a percentage of wholesale sales was 6.3% for both twenty-six week periods ending August 4, 2007 and July 29, 2006.

Selling, general and administrative expenses increased 11.4% from $39.4 million in the twenty-six weeks ended July 29, 2006 to $43.9 million in the twenty-six weeks ended August 4, 2007 due to the increase in the number of new stores and the additional payroll, occupancy and store opening expenses needed to operate these stores. Increases in wholesale sales volume generally results in nominal increases in selling, general and administrative expenses. Depreciation and amortization was approximately $2.7 million in the twenty-six weeks ended August 4, 2007 and $2.3 million in the twenty-six weeks ended July 29, 2006. The increase is attributable to depreciation incurred on new stores that have opened over the past twelve months offset by lower depreciation on certain stores that became fully depreciated during the same time period.

Interest expense was approximately $2.4 million for the twenty-six weeks ended August 4, 2007 compared with $2.1 million in the comparable period of 2006. The increase in interest expense was due to a higher average balance on our bank line of credit during the twenty-six weeks ended August 4, 2007 compared with the comparable period of 2006 and higher interest rates. The majority of our borrowings incur interest based on either prime or libor and these interest rates have risen over the past year.

An income tax benefit of $1.4 million was recorded as a result of the Company s net loss during the twenty-six weeks ended August 4, 2007 compared with a tax benefit of $0.8 million during the comparable period of 2006. The Company s effective tax rate for the twenty-six weeks ended August 4, 2007 was a tax benefit of 38% compared to a tax benefit of 29% for the comparative period last year. In the prior comparative period a full valuation allowance was recorded related to the deferred tax assets of the Company s Puerto Rican operations. Management has since determined that realization of these assets is more likely than not and the valuation allowance was reversed in the fourth quarter of fiscal year 2006.

As a result of the foregoing, our net loss increased from ($1.9) million in the twenty-six weeks ended July 29, 2006, to a net loss of ($2.3) million in the twenty-six weeks ended August 4, 2007. Net loss per share for the twenty-six weeks ended August 4, 2007 and July 29, 2006 was ($0.75) and ($0.64), respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our principal funding requirements are for inventory purchases, opening new stores and renovation of existing stores. For the first twenty-six weeks of fiscal 2007, these capital requirements generally were satisfied through borrowings under our credit facility. In December 2006, our credit facility was amended with an effective date of September 30, 2006, to extend the term for one additional year until May 2008. In June 2007, the covenant concerning the limitation on capital expenditures was modified retroactive to April 30, 2007. In addition, the minimum undrawn availability requirement, as defined, was modified so that Perfumania is required to maintain at all times, a minimum undrawn availability of not less than $5,000,000, and shall maintain a monthly average undrawn availability, as defined, of not less than $7,500,000. We do not anticipate any difficulty in refinancing the credit facility with the existing lender or obtaining a new facility with an alternate lender prior to the expiration of the existing facility s term in May 2008.

At August 4, 2007, we had a working capital of approximately $6.2 million compared to working capital of approximately $11.3 million at February 3, 2007 and $9.5 million at July 29, 2006. The change since February 3, 2007 was primarily due to the net loss during the current period and increased spending on store construction in the first twenty-six weeks of fiscal 2007.

Net cash used in operating activities during the twenty-six weeks ended August 4, 2007 was approximately $8.2 million compared with approximately $12.4 million used in operating activities during the same period of the prior year. The decrease in cash used in operating activities was primarily due to the increase of our accounts payable to affiliates and non-affiliates offset by increases in our inventory levels. Our accounts payable to affiliates and non-affiliates increased due to the timing of payments to our merchandise vendors and because of increased inventory purchases during the twenty-six weeks ended August 4, 2007 compared with the same period last year. The increase in inventory is due to planned purchases for store growth and selective opportunistic purchases of desirable merchandise. Our purchases from related parties are generally payable in 90 days, however due to the seasonality of our business these terms are generally extended. Related party accounts are historically brought closer to terms at the end of the holiday season, however we are dependant upon these extended terms for much of our liquidity during the year.

Net cash used in investing activities was approximately $5.6 million in the first twenty-six weeks ended August 4, 2007 compared to $3.0 million in the twenty-six weeks ended July 29, 2006. The current period s investing activities primarily represented spending for renovation of existing stores and new stores that either opened during the twenty-six weeks ended August 4, 2007 or that are scheduled for completion during fiscal year 2007. During the twenty-six weeks ended August 4, 2007, Perfumania opened 11 new stores and relocated 3 existing stores compared to 8 new store openings and 2 store relocations during the comparative period in fiscal 2006. At August 4, 2007, Perfumania operated 276 stores compared to 243 stores as of July 29, 2006. We currently plan to open approximately 28 new stores and close 2 stores during the remainder of fiscal year 2007. We believe that these capital requirements will be satisfied by borrowings under our credit facility and from cash flows from operations.

Net cash provided by financing activities during the first twenty-six weeks of fiscal 2007 was approximately $13.7 million, primarily from borrowings under our line of credit, compared with approximately $15.6 million for the same period in the prior year.

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Based on past performance and current expectations, we believe that our cash balances, the available borrowing capacity under our credit facility, continued extended terms from our affiliates and our projected future operating results will generate sufficient liquidity to support the Company s needs for the next twelve months.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim information. Presentation of these statements requires management to make judgments and estimates. As such, some accounting policies have a significant impact on amounts reported in these financial statements. The judgments and estimates made can significantly affect results. Materially different amounts would be reported under different conditions or by using different assumptions. A summary of those critical accounting policies can be found in our 2006 Annual Report on Form 10-K.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. SFAS 157 is effective for the first interim period beginning in fiscal 2008. We are currently evaluating the impact that the adoption of SFAS 157 will have on our results of operations, financial position and cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 will permit entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 will be effective for the first interim period beginning in fiscal 2008. We are currently evaluating the impact that the adoption of SFAS 159 will have on our results of operations, financial position and cash flows.

FORWARD LOOKING STATEMENTS

Some of the statements in this quarterly report, including those that contain the words anticipate, believe, plan, estimate, expect, should, and other similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements of those of our industry to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Among the factors that could cause actual results, performance or achievement to differ materially from those described or implied in the forward-looking statements are our ability to service our obligations, our ability to comply with the covenants in our credit facility, general economic conditions including a decrease in discretionary spending by consumers, competition, changes in or the lack of anticipated changes in the regulatory environment in various countries, the consummation of the proposed merger with Model, the ability to raise additional capital to finance expansion, the risks inherent in new product and service introductions and the entry into new geographic markets and other factors included in our filings with the SEC, including the Risk Factors included in our 2006 Annual Report on From 10-K filed with the SEC. Those Risk Factors contained in our 2006 Annual Report on Form 10-K are incorporated herein by this reference to them. Copies of our SEC filings are available from the SEC or may be obtained upon request from us. We do not undertake any obligation to update the information contained herein, which speaks only as of this date.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

During the quarter ended August 4, 2007, there have been no material changes in the information about our market risks as of February 3, 2007 as set forth in Item 7A of the 2006 Form 10-K.

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ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of August 4, 2007, that our disclosure controls and procedures are effective. There have been no changes in our internal control over financial reporting during the quarter ended August 4, 2007 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

Not applicable.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

Exhibits

Index to Exhibits

Exhibit No.	
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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E COM VENTURES, INC.

SIGNATURES

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

E COM VENTURES, INC.

(Registrant)

Date: September 17, 2007

By: /S/ Michael W. Katz
Michael W. Katz
President and Chief Executive Officer
(Principal Executive Officer)

By: /S/ Donovan Chin
Donovan Chin
Chief Financial Officer
(Principal Financial and
Accounting Officer)

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Exhibit Index

Exhibit Number	Description
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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32.1	Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ical-align:bottom;padding-left:2px;padding-top:2px;padding-bottom:2px;">
9,119

0.62
%

1,973,635

6,617

0.67
%
Noninterest-bearing deposits
1,507,041

1,005,315

Other liabilities
38,528

30,117

Total liabilities
4,505,806

3,009,067

Stockholders' equity
710,138

408,093

Total liabilities and equity
$
5,215,944

$
3,417,160

Net interest income

$
105,041

$
71,762

Net interest rate spread (2)

4.16
%

4.20
%
Net interest margin (3)

4.39
%

4.46
%
Ratio of interest-earning assets to interest-bearing liabilities

162.85
%

163.99
%

(1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees, unamortized discounts and premiums.
(2) Represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
(3) Represents net interest income divided by average interest-earning assets.

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Changes in our net interest income are a function of changes in volumes, days in a period and rates of interest-earning assets and interest-bearing liabilities. The following table presents the impact the volume, days in a period and rate changes have had on our net interest income for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, we have provided information on changes to our net interest income with respect to:

- Changes in volume (changes in volume multiplied by prior rate);
- Changes in days in a period (changes in days in a period multiplied by daily interest);
- Changes in interest rates (changes in interest rates multiplied by prior volume); and
- The net change or the combined impact of volume, days in a period and rate changes allocated proportionately to changes in volume, days in a period and changes in interest rates.

	Three Months Ended June 30, 2017 Compared to Three Months Ended March 31, 2017			
	Increase (decrease) due to			
	Volume	Days	Rate	Net
	(dollars in thousands)			
Interest-earning assets				
Cash and cash equivalents	$52	$2	$22	$76
Investment securities	2,218	—	(106)	2,112
Loans receivable, net	19,584	698	836	21,118
Total interest-earning assets	21,854	700	752	23,306
Interest-bearing liabilities				
Interest checking	36	1	—	37
Money market	565	17	28	610
Savings	38	1	(9)	30
Retail certificates of deposit	328	10	(112)	226
Wholesale/brokered certificates of deposit	22	5	16	43
FHLB advances and other borrowings	326	13	232	571
Subordinated debentures	144	—	10	154
Total interest-bearing liabilities	1,459	47	165	1,671
Change in net interest income	$20,395	$653	$587	$21,635

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	Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016		
	Increase (decrease) due to		
	Volume	Rate	Net
	(dollars in thousands)		
Interest-earning assets			
Cash and cash equivalents	$(50)	$21	$(29)
Investment securities	3,200	169	3,369
Loans receivable, net	25,554	(1,035)	24,519
Total interest-earning assets	28,704	(845)	27,859
Interest-bearing liabilities			
Interest checking	40	—	40
Money market	711	(25)	686
Savings	42	(12)	30
Retail certificates of deposit	190	(22)	168
Wholesale/brokered certificates of deposit	113	34	147
FHLB advances and other borrowings	873	(22)	851
Subordinated debentures	150	10	160
Total interest-bearing liabilities	2,119	(37)	2,082
Change in net interest income	$26,585	$(808)	$25,777

	Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016			
	Increase (decrease) due to			
	Volume	Days	Rate	Net
	(dollars in thousands)			
Interest-earning assets				
Cash and cash equivalents	$(211)	$(1)	$29	$(183)
Investment securities	3,939	—	477	4,416
Loans receivable, net	35,898	(586)	(3,764)	31,548
Total interest-earning assets	$39,626	$(587)	$(3,258)	$35,781
Interest-bearing liabilities				
Interest checking	$47	$(1)	$—	$46
Money market	945	(14)	(94)	837
Savings	47	(1)	(15)	31
Retail certificates of deposit	111	(9)	(149)	(47)
Wholesale/brokered certificates of deposit	208	(5)	67	270
FHLB advances and other borrowings	1,220	(10)	(80)	1,130
Subordinated debentures	130	—	105	235
Total interest-bearing liabilities	$2,708	$(40)	$(166)	$2,502
Change in net interest income	$36,918	$(547)	$(3,092)	$33,279

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Provision for Loan Losses

A provision for loan losses was recorded for the second quarter of 2017 in the amount of $1.9 million, compared with a provision for loan losses of $2.5 million in the quarter ended March 31, 2017. Net loan recoveries were $76,000 for the recent quarter of 2017, compared with net loan charge-offs of $723,000 for the quarter ended March 31, 2017. Lower credit losses as evidenced by net loan recoveries of $76,000 contributed to the decrease in our provision for loan losses.

The $1.9 million provision for loan losses during the second quarter of 2017 increased by $315,000 from the second quarter of 2016. Net loan recoveries were $76,000 for the recent quarter of 2017, compared with net loan charge-offs of $1.1 million from the second quarter of 2016.

For the first six months of 2017, we recorded a $4.4 million provision for loan losses, an increase from $2.7 million recorded for the first six months of 2016. The increase in the provision for loan losses was primarily due to loan growth. Net loan charge-offs amounted to $647,000 for the first six months of 2017, a decrease from $1.1 million for the first six months of 2016.

For purchased credit impaired loans, charge-offs are recorded when there is a decrease in the estimated cash flows of the credit from original cash flow estimates. Purchased credit impaired loans were recorded at their estimated fair value, which incorporated our estimated expected cash flows until the ultimate resolution of these credits. To the extent actual or projected cash flows are less than originally estimated, additional provisions for loan losses or charge-offs will be recognized into earnings or against the allowance, if applicable. To the extent actual or projected cash flows are more than originally estimated, the increase in cash flows is prospectively recognized in loan interest income. Due to the accounting rules associated with our purchased credit impaired loans, each quarter we are required to re-estimate cash flows which could cause volatility in our reported net interest margin and provision for loan losses. During the second quarter of 2017, no additional allowance was recorded associated with certain purchased credit impaired loans. See “Allowance for Loan Losses” discussed below in this Quarterly Report on Form 10-Q.

Noninterest Income

Noninterest income for the second quarter of 2017 was $8.8 million, an increase of $4.1 million, or 87%, from the first quarter of 2017. The increase from the first quarter of 2017 was primarily related to a $2.1 million increase in net gain from the sale of $213 million of investment securities, a $799,000 increase in deposit fees and a $1.1 million increase in other income all related to the HEOP acquisition. During the recent quarter of 2017, the Bank sold $29.6 million of Small Business Administration ("SBA") loans for a gain of $2.9 million, compared with $30.4 million of SBA loans sold and a gain of $2.6 million in the quarter ended March 31, 2017.

Noninterest income for the second quarter of 2017 increased $4.3 million, or 97%, compared to the second quarter of 2016. The increase from the second quarter of 2016 was primarily related to a $1.6 million increase in net gain from the sale of investment securities, a $829,000 increase in deposit fees, a $763,000 increase in net gain from sales of loans and a $1.2 million increase in other income.

For the first six months of 2017, noninterest income totaled $13.4 million, an increase from $9.3 million for the first six months of 2016. The increase was primarily related to higher net gain from sale of loans of $1.7 million and higher net gain from sales of investment securities of $808,000. In addition, higher deposit fees of $848,000 were received, primarily as a result of the HEOP acquisition in the second quarter of 2017.

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Noninterest Expense

Noninterest expense totaled $48.5 million for the second quarter of 2017, an increase of $18.7 million, or 63%, compared with the first quarter of 2017. The increase was primarily driven by merger-related expenses of $10.1 million for the HEOP acquisition in the second quarter of 2017 compared with $4.9 million for the first quarter of 2017. In addition, the Company had higher compensation and benefits expenses during the first quarter of 2017 of $6.7 million.

In comparison to the second quarter of 2016, noninterest expense grew by $24.8 million, or 105%. The $24.8 million increase in noninterest expense includes a $9.6 million increase in merger-related expenses and a $8.5 million increase in compensation and benefits expenses associated with both the acquisition of HEOP and an increase in staffing to support organic growth.

Noninterest expense totaled $78.2 million for the first six months of 2017, an increase of $30.9 million, or 65%, compared with the first six months of 2016. The increase was primarily driven by merger-related expenses of $15.1 million for the HEOP acquisition in the first six months of 2017 compared with $3.6 million for the first six months of 2016 for the SCAF acquisition. In addition, the Company had higher compensation and benefits expenses during the first six months of 2017 of $11.7 million.

The Company's efficiency ratio was 52.3% for the second quarter of 2017, compared to 52.3% for the first quarter of 2017 and 54.4% for the second quarter of 2016. The Company's efficiency ratio was 52.3% for the first six months of 2017, compared to 53.6% for the first six months of 2016.

Income Taxes

For the three months ended June 30, 2017, March 31, 2017 and June 30, 2016, income tax expense was $7.5 million, $4.6 million and $6.4 million, respectively, and the effective income tax rate was 34.7%, 32.7% and 38.0%, respectively. The decrease in the effective tax rate in 2017 as compared to 2017 was primarily the result of the adoption of ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Accounting, which went into effect for the Company on January 1, 2017. As a result of the adoption of ASU 2016-09, the Company began recognizing the tax effects of exercised or vested awards as discrete items in the reporting period in which they occur, resulting in a $1.6 million tax benefit to the Company for the six months ended June 30, 2017.

The Company did not have unrecognized tax benefits that related to uncertainties associated with federal and state income tax matters as of June 30, 2017 and December 31, 2016.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as state income and franchise taxes in multiple state jurisdictions. The statute of limitations related to the consolidated federal income tax returns is closed for all tax years up to and including 2012. The expiration of the statute of limitations related to the various state income and franchise tax returns varies by state.

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax basis of its assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. Based on this analysis, Management has determined that a valuation allowance for deferred tax assets was not required as of June 30, 2017.

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FINANCIAL CONDITION

At June 30, 2017, assets totaled $6.4 billion, an increase of $2.4 billion, or 60%, from December 31, 2016. The increase from the prior quarter was primarily due to the acquisition of HEOP, which after purchase accounting adjustments, added $1.4 billion in gross loans and $443 million in investment securities, of which $213 million were sold subsequent to the acquisition, and goodwill of $268 million was recognized in the acquisition.

Loans

Loans held for investment totaled $4.9 billion at June 30, 2017, an increase of $1.5 billion, or 44%, from December 31, 2016. The increase from December 31, 2016 was primarily due to the acquisition of HEOP, which after purchase accounting adjustments, added $1.4 billion in gross loans and organic loan commitments of $947 million during the first six months of 2017.

The total end-of-period weighted average contractual interest rate on loans, excluding fees and discounts, at June 30, 2017 was 4.79%, compared to 4.81% at December 31, 2016.

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The following table sets forth the composition of our loan portfolio in dollar amounts, as a percentage of the portfolio and gives the weighted average interest rate by loan category at the dates indicated:

	June 30, 2017			At December 31, 2016		
	Amount	Percent of Total	Weighted Average Interest Rate	Amount	Percent of Total	Weighted Average Interest Rate
	(dollars in thousands)					
Business loans:						
Commercial and industrial	$733,852	15.1 %	4.98 %	$563,169	17.4 %	4.82 %
Franchise	565,415	11.6	5.28	459,421	14.1	5.24
Commercial owner occupied (1)	729,476	15.0	4.64	454,918	14.0	4.76
SBA	108,224	2.2	6.05	96,705	3.0	5.63
Agriculture	98,842	2.0	4.87	—	—	—
Real estate loans:						
Commercial non-owner occupied	1,095,184	22.5	4.54	586,975	18.1	4.63
Multi-family	746,547	15.3	4.30	690,955	21.3	4.28
One-to-four family (2)	322,048	6.6	4.34	100,451	3.1	4.62
Construction	289,600	6.0	6.01	269,159	8.3	5.57
Farmland	136,587	2.8	4.55	—	—	—
Land	31,799	0.7	5.58	19,829	0.6	5.36
Other loans	7,309	0.2	6.25	4,112	0.1	5.60
Total gross loans (3)	4,864,883	100.0%	4.79 %	3,245,694	100.0%	4.81 %
Plus: Deferred loan origination costs/(fees) and premiums/(discounts), net	568			3,630		
Total loans	4,865,451			3,249,324		
Less: Loans held for sale, at lower of cost or fair value	6,840			7,711		
Loans held for investment	4,858,611			3,241,613		
Allowance for loan losses	(25,055)			(21,296)		
Loans held for investment, net	$4,833,556			$3,220,317		

(1) Secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans for June 30, 2017 are net of the unaccreted fair value purchase discounts of $25.2 million.

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally record a notice of default and, after providing the required notices to the borrower, commence foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At June 30, 2017 and December 31, 2016, loans delinquent 30 or more days as a percentage of total gross loans was 0.06%, compared to 0.03% at December 31, 2016.

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The following table sets forth delinquencies in the Company's loan portfolio at the dates indicated:

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)							
At June 30, 2017								
Business loans:								
Commercial and industrial	5	$ 225	6	$ 280	2	$ 97	13	$ 602
Franchise	—	—	1	901	2	172	3	1,073
Commercial owner occupied	1	17	3	18	2	132	6	167
Real estate loans:								
Commercial non-owner occupied	—	—	1	529	—	—	1	529
Multi-family	—	—	1	237	—	—	1	237
One-to-four family	3	354	—	—	2	41	5	395
Construction/Land/Other	3	4	—	—	1	12	4	16
Total	12	$ 600	12	$ 1,965	9	$ 454	33	$ 3,019
Delinquent loans to loans held for investment		0.01 %		0.04 %		0.01 %		0.06 %
At December 31, 2016								
Business loans:								
Commercial and industrial	2	$ 104	—	$—	2	$ 260	4	$ 364
SBA	—	—	—	—	3	316	3	316
Real estate loans:								
One-to-four family	1	18	1	71	3	48	5	137
Land	—	—	—	—	1	15	1	15
Total	3	$ 122	1	$ 71	9	$ 639	13	$ 832
Delinquent loans to loans held for investment		— %		— %		0.02 %		0.03 %

(1) All loans that are delinquent 90 days or more are on nonaccrual status and reported as part of nonperforming loans.

Allowance for Loan Losses. The ALLL represents an estimate of probable incurred losses inherent in our loan portfolio and is based on our continual review of credit quality of the loan portfolio. The allowance contains a specific reserve component for loans that are determined to be impaired and a general reserve component for loans without credit impairment. The general reserve is determined by applying a systematically derived loss factor to individual segments of the loan portfolio. The adequacy and appropriateness of the ALLL and the individual loss factors are reviewed each quarter by management.

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The loss factor for each segment of our loan portfolio is generally based on our actual historical loss rate experience supplemented by industry data where we lack loss history experience. The loss factor is adjusted by qualitative adjustment factors to arrive at a final loss factor for each loan portfolio segment. For additional information regarding the qualitative adjustments, please see “Allowances for Loan Losses” as discussed in our 2016 Annual Report. The qualitative factors allow management to assess current trends within our loan portfolio and the economic environment to incorporate their effect when calculating the ALLL. The final loss factors are applied to pass graded loans within our loan portfolio. Higher factors are applied to loans graded below pass, including classified and criticized assets.

No assurance can be given that we will not, in any particular period, sustain loan losses that exceed the amount reserved, or that subsequent evaluation of our loan portfolio, in light of the prevailing factors, including economic conditions which may adversely affect our market area or other circumstances, will not require significant increases in the loan loss allowance. In addition, regulatory agencies, as an integral part of their examination process, periodically review our ALLL and may require us to recognize additional provisions to increase the allowance or take charge-offs in anticipation of future losses.

At June 30, 2017, our ALLL was $25.1 million, an increase of $3.8 million from December 31, 2016. The increase in the allowance for loan losses at June 30, 2017 was mainly attributable to loan growth in the loan portfolio and, to a lesser extent, net loan charge-offs of $723,000. At June 30, 2017, given the composition of our loan portfolio, as well as the unamortized fair value discount of loans acquired, the ALLL was considered adequate to cover probable incurred losses inherent in the loan portfolio. Should any of the factors considered by management in evaluating the appropriate level of the ALLL change, the Company’s estimate of probable incurred loan losses could also change, which could affect the level of future provisions for loan losses.

The following table sets forth the Company’s ALLL and its corresponding percentage of the loan category balance and the percent of loan balance to total gross loans in each of the loan categories listed for the periods indicated:

	June 30, 2017					December 31, 2016				
Balance at End of Period Applicable to	Amount	Allowance as a % of Category Total		% of Loans in Category to Total Loans		Amount	Allowance as a % of Category Total		% of Loans in Category to Total Loans	
	(dollars in thousands)									
Business loans:										
Commercial and industrial	$7,643	1.04	%	15.1	%	$6,362	1.13	%	17.4	%
Franchise	5,367	0.95		11.6		3,845	0.84		14.1	
Commercial owner occupied	673	0.09		15.0		1,193	0.26		14.0	
SBA	2,519	2.48		2.2		1,039	1.17		3.0	
Agriculture	206	0.21		2.0		—	—		—	
Real estate loans:										
Commercial non-owner occupied	1,204	0.11		22.5		1,715	0.29		18.1	
Multi-family	611	0.08		15.3		2,927	0.42		21.3	
One-to-four family	724	0.22		6.6		365	0.36		3.1	
Construction	5,036	1.74		6.0		3,632	1.35		8.3	
Farmland	29	0.02		2.8		—	—		—	
Land	959	3.02		0.7		198	1.00		0.6	
Other Loans	84	1.15		0.2		20	0.49		0.1	
Total	$25,055	0.52	%	100.0	%	$21,296	0.66	%	100.0	%

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At June 30, 2017, the ratio of ALLL to loans held for investment was 0.52%, a decrease from 0.66% at December 31, 2016. Our remaining unamortized fair value discount on the loans acquired totaled $25.2 million at June 30, 2017, compared to $7.6 million at December 31, 2016.

The following table sets forth the activity within the Company's ALLL in each of the loan categories listed for the periods indicated:

	Three Months Ended			Six Months Ended	
	June 30, 2017	March 31 2017	June 30, 2016	June 30, 2016	June 30, 2016
	(dollars in thousands)				
Balance, beginning of period	$23,075	$21,296	$18,455	$21,296	$17,317
Provision for loan losses	1,904	2,502	1,589	4,406	2,709
Charge-offs:					
Business loans:					
Commercial and industrial	(110)	(752)	(710)	(862)	(710)
Franchise	—	—	(169)	—	(169)
Commercial owner occupied	—	—	(329)	—	(329)
SBA	—	(8)	(5)	(8)	(5)
Real estate:					
One-to-four family	—	—	(7)	—	(7)
Total charge-offs	(110)	(760)	(1,220)	(870)	(1,220)
Recoveries :					
Business loans:					
Commercial and industrial	33	22	40	55	54
Commercial owner occupied	70	12	—	82	—
SBA	81	2	82	83	85
Real estate:					
One-to-four family	1	1	5	2	6
Other loans	1	—	4	1	4
Total recoveries	186	37	131	223	149
Net loan (charge-offs) recoveries	76	(723)	(1,089)	(647)	(1,071)
Balance at end of period	$25,055	$23,075	$18,955	$25,055	$18,955
Ratios:					
Net charge-offs (recoveries) to average total loans, net	— %	0.02 %	0.04 %	0.02 %	0.04 %
Allowance for loan losses to loans held for investment at end of period	0.52 %	0.68 %	0.65 %	0.52 %	0.65 %

Investment Securities

We primarily use our investment portfolio for liquidity purposes and to support our interest rate risk management strategies. Investment securities available-for-sale totaled $703 million at June 30, 2017, an increase of $322 million, or 85%, from December 31, 2016. The increase in investment securities from December 31, 2016 was primarily the result of the acquisition of HEOP, which at acquisition added $445 million of securities,
before purchase accounting adjustments, and purchases of $121 million, partially offset by approximately $213 million in sales of securities resulting in a gain of $2.1 million.

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The following tables set forth the amortized cost, unrealized gains and losses, and estimated fair value of our investment securities portfolio at the dates indicated:

	June 30, 2017			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
Agency	$54,388	$ 707	$ (24)	$55,071
Corporate	53,498	1,001	(150)	54,349
Municipal bonds	247,242	5,194	(358)	252,078
Collateralized mortgage obligation: residential	46,095	312	(86)	46,321
Mortgage-backed securities: residential	296,324	893	(1,953)	295,264
Total investment securities available-for-sale	697,547	8,107	(2,571)	703,083
Investment securities held-to-maturity:				
Mortgage-backed securities: residential	6,586	—	(47)	6,539
Other	1,164	—	—	1,164
Total securities held-to-maturity	7,750	—	(47)	7,703
Total investment securities	$705,297	$ 8,107	$ (2,618)	$710,786

	December 31, 2016			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(dollars in thousands)			
Investment securities available-for-sale:				
Corporate	$37,475	$ 372	$ (205)	$37,642
Municipal bonds	120,155	338	(1,690)	118,803
Collateralized mortgage obligation: residential	31,536	25	(173)	31,388
Mortgage-backed securities: residential	196,496	69	(3,435)	193,130
Total investment securities available-for-sale	385,662	804	(5,503)	380,963
Investment securities held-to-maturity:				
Mortgage-backed securities: residential	7,375	—	(104)	7,271
Other	1,190	—	—	1,190
Total investment securities held-to-maturity	8,565	—	(104)	8,461
Total investment securities	$394,227	$ 804	$ (5,607)	$389,424

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The following table sets forth the fair values and weighted average yields on our investment securities available-for-sale portfolio by contractual maturity at the date indicated:

	June 30, 2017									
	One Year or Less		More than One to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
	(dollars in thousands)									
Investment securities available-for-sale:										
Agency	$—	— %	$—	— %	$15,247	2.32 %	$39,824	2.19 %	$55,071	2.23 %
Corporate	—	—	—	—	54,349	5.23	—	—	54,349	5.23
Municipal bonds	3,107	1.04	36,012	1.73	77,010	2.10	135,949	2.55	252,078	2.28
Collateralized mortgage obligation	—	—	—	—	3,660	2.23	42,661	2.44	46,321	2.42
Mortgage-backed securities	2,630	2.30	6,348	0.77	49,839	2.26	236,447	1.89	295,264	1.93
Total securities available-for-sale	5,737	1.62	42,360	1.59	200,105	3.01	454,881	2.17	703,083	2.36
Investment securities held-to-maturity:										
Mortgage-backed securities	—	—	—	—	—	—	6,539	2.18	6,539	2.18
Other	—	—	—	—	—	—	1,164	0.93	1,164	0.93
Total securities held-to-maturity	—	—	—	—	—	—	7,703	2.00	7,703	2.00
Total securities	$5,737	1.62 %	$42,360	1.59 %	$200,105	3.01 %	$462,584	2.16 %	$710,786	2.36 %

Each quarter, we review 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 we will be unable to collect all amounts due according to the contractual terms of the debt security, an OTTI write-down is recorded against the security and a loss recognized.

In determining if a security has an OTTI loss, we consider the 1) length of time and the extent to which the fair value has been less then amortized cost; 2) financial condition and near term prospects of the issuer; 3) impact of changes in market interest rates; and 4) intent and ability of the Company to retain its investment for a period of time sufficient to allow any anticipated recovery in fair value and whether it is not more likely than not the Company would be required to sell the security. We estimate OTTI losses on a security primarily through:

- An evaluation of the present value of estimated cash flows from the security using the current yield to accrete beneficial interest and including assumptions in the prepayment rate, default rate, delinquencies, loss severity and percentage of nonperforming assets;
- An evaluation of the estimated payback period to recover principal;
- An analysis of the credit support available in the underlying security to absorb losses; and
- A review of the financial condition and near term prospects of the issuer.

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The Company realized no OTTI recovery for the quarter ended June 30, 2017, December 31, 2016 and June 30, 2016. The Company realized OTTI recovery of $1,000 for the quarter ended March 31, 2017. We recorded no impairment credit losses on available-for-sale securities in our consolidated statement of operations for the three months ended June 30, 2017, December 31, 2016 and June 30, 2016. A $207,000 OTTI was taken during the quarter ended March 31, 2016, related to a CRA investment purchased in June of 2014 with a par value of $50, and a book value of $500,000.

Nonperforming Assets

Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), restructured loans and OREO. It is our general policy to account for a loan as nonaccrual when the loan becomes 90 days delinquent or when collection of interest appears doubtful.

Nonperforming assets totaled $767,000, or 0.01% of total assets at June 30, 2017, a decrease from $1.6 million, or 0.04% of total assets at December 31, 2016. At June 30, 2017, nonperforming loans totaled $395,000, or 0.01% of loans held for investment, a decrease from $1.1 million, or 0.04% of loans held for investment at December 31, 2016. Other real estate owned decreased to $372,000.

The following table sets forth our composition of nonperforming assets at the dates indicated:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Nonperforming assets		
Business loans:		
Commercial and industrial	$—	$250
Commercial owner occupied	206	436
SBA	73	316
Real estate:		
One-to-four family	104	124
Land	12	15
Total nonperforming loans	395	1,141
Other real estate owned	372	460
Total nonperforming assets	$767	$1,601
Allowance for loan losses	$25,055	$21,296
Allowance for loan losses as a percent of total nonperforming loans	6,343 %	1,866 %
Nonperforming loans as a percent of loans held for investment	0.01	0.04
Nonperforming assets as a percent of total assets	0.01	0.04

Liabilities and Stockholders' Equity

Total liabilities were $5.48 billion at June 30, 2017, compared to $3.58 billion at December 31, 2016. The increase of $1.9 billion, or 53%, from December 31, 2016 was primarily related to a $1.8 billion, or 57%, increase to deposits from December 31, 2016.

Deposits. At June 30, 2017, deposits totaled $4.9 billion, an increase of $1.8 billion, or 57%, from December 31, 2016, primarily as a result of the acquisition of HEOP. Non-maturity deposits totaled $4.1 billion, 84% of total deposits, an increase of $1.6 billion, or 61% from December 31, 2016, highlighted by an increase in money market and savings accounts of $804 million, noninterest-bearing checking of $624 million and demand deposit of $141 million. Time deposits increased $232 million, or 40% from December 31, 2016, which included

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an increase of $34.6 million and $197 million to wholesale/brokered certificate of deposits and retail certificate of deposits, respectively.

The total end of period weighted average rate of deposits at June 30, 2017 was 0.28%, a decrease from 0.32% December 31, 2016.

Our ratio of loans held for investment to deposits was 98.2% and 103.1% at June 30, 2017 and December 31, 2016, respectively.

The following table sets forth the distribution of the Company's deposit accounts at the dates indicated and the weighted average interest rates on each category of deposits presented:

	June 30, 2017			December 31, 2016		
	Balance	% of Total Deposits	Weighted Average Rate	Balance	% of Total Deposits	Weighted Average Rate
	(dollars in thousands)					
Noninterest-bearing checking	$1,810,047	36.6 %	— %	$1,185,768	37.7 %	— %
Interest-bearing deposits:						
Checking	323,818	6.5	0.11	182,893	5.8	0.11
Money market	1,796,678	36.3	0.36	1,100,787	35.1	0.34
Savings	212,453	4.3	0.15	101,574	3.2	0.14
Time deposit accounts:						
Less than 1.00%	489,375	9.9	0.62	416,649	13.2	0.61
1.00 - 1.99	310,700	6.3	1.16	153,012	4.9	1.14
2.00 - 2.99	5,969	0.1	2.18	4,413	0.1	2.25
3.00 - 3.99	51	—	3.87	37	—	3.85
4.00 - 4.99	50	—	4.33	3	—	4.93
5.00 and greater	290	—	5.07	445	—	5.07
Total time deposit accounts	806,435	16.3	0.84	574,559	18.2	0.80
Total interest-bearing deposits	3,139,384	63.4	0.44	1,959,813	62.3	0.48
Total deposits	$4,949,431	100.0 %	0.28 %	$3,145,581	100.0 %	0.32 %

Borrowings. At June 30, 2017, total borrowings amounted to $477 million, a decrease of $79.7 million, or 20%, from December 31, 2016. At June 30, 2017, total borrowings represented 7.4% of total assets and had an end of period weighted average rate of 2.0%, compared with 9.8% of total assets at a weighted average rate of 1.6% at December 31, 2016.

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At June 30, 2017, total borrowings were comprised of the following:

- FHLB advances of $346 million at 1.28%;
- Subordinated notes of $60 million at 5.75% due September 3, 2024. For additional information about the subordinated notes, see Note 8 to the Consolidated Financial Statements in this report;
- Three reverse repurchase agreements totaling $28.5 million at a weighted average rate of 3.26% with $10 million due in February 2018 and $18.5 million due in September 2018. These agreements are secured by government sponsored entity MBS securities with a par value of $31.7 million and a fair value of $32.9 million;
- HOA reverse repurchase agreements totaling $20.9 million at a weighted average rate of .02% and secured by government sponsored entity MBS securities with a par value of $24.5 million and a fair value of $25.2 million; and
- Subordinated debentures used to fund the issuance of trust preferred securities in 2004 of $10.3 million at 3.91% due April 7, 2034. For additional information about the subordinated debentures and trust preferred securities, see Note 8 to the Consolidated Financial Statements in this report.
- $5.2 million of floating rate junior subordinated debt securities to Heritage Oaks Capital Trust II. Interest is payable quarterly at three-month LIBOR plus 1.72% per annum, for an effective rate of 2.87% per annum as of June 30, 2017. At June 30, 2017, the carrying value of these debentures was $3.9 million, which reflects purchase accounting fair value adjustments of 1.4 million.
- $3.1 million of floating rate junior subordinated debt associated with Mission Community Capital Trust I. The carrying value of Mission Community Capital Trust I was $2.8 million which reflects purchase accounting fair value adjustments of $342,000. Interest is payable quarterly at three-month LIBOR plus 2.95% per annum, for an effective rate of 4.10844% per annum as of June 30, 2017.
- $5.2 million of floating rate junior subordinated debt associated Santa Lucia Bancorp (CA) Capital Trust. The carrying value of Santa Lucia Bancorp (CA) Capital Trust was $3.7 million, which reflects purchase accounting fair value adjustments $1.5 million. Interest is payable quarterly at three-month LIBOR plus 1.48% per annum, for an effective rate of 2.63844% per annum as of June 30, 2017.

The following table sets forth certain information regarding the Company’s borrowed funds at the dates indicated:

	June 30, 2017		December 31, 2016	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	(dollars in thousands)			
FHLB advances	$346,202	1.28 %	$278,000	0.55 %
Reverse repurchase agreements	51,065	1.82	49,971	1.87
Subordinated debentures	79,800	5.09	69,383	5.35
Total borrowings	$477,067	1.98 %	$397,354	1.55 %
Weighted average cost of borrowings during the quarter	2.00 %		2.75 %	
Borrowings as a percent of total assets	7.4		9.8	

Stockholders’ Equity. Total stockholders’ equity was $960 million as of June 30, 2017, an increase from $460 million at December 31, 2016. The current year increase of $500 million in stockholders’ equity was primarily related to the issuance of $465 million of stock in the acquisition of HEOP as well as net income for the first six months of 2017 of $23.7 million.

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Our book value per share increased to $23.96 at June 30, 2017 from $16.54 at December 31, 2016. At June 30, 2017, the Company's tangible common equity to tangible assets ratio was 9.18%, an increase from 8.86% at December 31, 2016.

Tangible common equity to tangible assets (the "tangible common equity ratio") is a non-GAAP financial measure derived from GAAP-based amounts. We calculate the tangible common equity ratio by deducting the balance of intangible assets from common shareholders' equity and dividing by period end tangible assets which also deducts intangible assets. We believe that this information is important to shareholders as tangible equity is a measure that is consistent with the calculation of capital for bank regulatory purposes, which excludes intangible assets from the calculation of risk-based ratios.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
GAAP Reconciliation
(dollars in thousands)

	June 30, 2017	December 31, 2016
Total stockholders' equity	$959,731	$459,740
Less: Intangible assets	(405,869)	(111,941)
Tangible common equity	$553,862	$347,799
Total assets	$6,440,631	$4,036,311
Less: Intangible assets	(405,869)	(111,941)
Tangible assets	$6,034,762	$3,924,370
Tangible common equity ratio	9.18 %	8.86 %

CAPITAL RESOURCES AND LIQUIDITY

Our primary sources of funds are deposits, advances from the FHLB and other borrowings, principal and interest payments on loans, and income from investments. While maturities and scheduled amortization of loans are a predictable source of funds, deposit inflows and outflows as well as loan prepayments are greatly influenced by general interest rates, economic conditions, and competition.

Our primary sources of funds generated during the first six months of 2017 were from:

- Proceeds of $217 million from the sale or maturity of securities available-for-sale;
- Net increase of $131 million in deposit accounts;
- Cash of $77.1 million acquired in the acquisition;
- Proceeds of $65.5 million from the sale and principal payments on loans held for sale; and
- Principal payments on securities available-for-sale of $34.5 million.

We used these funds to:

- Originate loans of $492 million;
- Purchase of securities available-for-sale of $110 million;
- Originate loans held for sale of $61.4 million; and
- Reduce borrowings by $59.3 million.

Our most liquid assets are unrestricted cash and short-term investments. The levels of these assets are dependent on our operating, lending and investing activities during any given period. Our liquidity position is

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continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. At June 30, 2017, cash and cash equivalents totaled $229 million and the market value of our investment securities available-for-sale totaled $703 million. If additional funds are needed, we have additional sources of liquidity that can be accessed, including FHLB advances, federal fund lines, the Federal Reserve's lending programs and loan sales. As of June 30, 2017, the maximum amount we could borrow through the FHLB was $1.88 billion, of which $951 million was available for borrowing based on collateral pledged of $1.1 billion in real estate loans. At June 30, 2017, we had $346 million in FHLB borrowings against that available balance. At June 30, 2017, we also had unsecured lines of credit aggregating $221 million, which consisted of $168 million with other financial institutions from which to draw funds and $3.3 million with the FRB and one reverse repo line with a correspondent bank of $50 million. For the quarter ended June 30, 2017, our average liquidity ratio was 11.52%, which is above the Company's policy of 10.0%. The Company regularly models liquidity stress scenarios to ensure that adequate liquidity is available and has contingency funding plans in place which are reviewed and tested on a regular basis.

To the extent that 2017 deposit growth is not sufficient to satisfy our ongoing commitments to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans, or make investments, we may access funds through our FHLB borrowing arrangement, unsecured lines of credit or other sources.

The Bank has a policy in place that permits the purchase of brokered funds, in an amount not to exceed 15% of total deposits, as a secondary source for funding. At June 30, 2017, we had $234 million in brokered time deposits, which constituted 4.7% of total deposits at that date.

The Corporation is a corporate entity separate and apart from the Bank that must provide for its own liquidity. The Corporation's primary sources of liquidity are dividends from the Bank. In addition, the Corporation acquired a line of credit with Wells Fargo, with availability of $15 million. There are statutory and regulatory provisions that limit the ability of the Bank to pay dividends to the Corporation. Management believes that such restrictions will not have a material impact on the ability of the Corporation to meet its ongoing cash obligations.

The Corporation has never declared or paid dividends on its common stock and, at this time, does not anticipate declaring or paying any cash dividends in the foreseeable future. The Corporation's board of directors authorized in June 2012 a stock repurchase plan, which allows the Corporation to proactively manage its capital position and return excess capital to its stockholders. The repurchase plan authorizes the repurchase of up to 1,000,000 shares of the Company's common stock. Shares purchased under such plans also provide the Corporation with shares of common stock necessary to satisfy obligations related to stock compensation awards. Also, please see Part II, Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

Contractual Obligations and Off-Balance Sheet Commitments

Contractual Obligations. The Company enters into contractual obligations in the normal course of business primarily as a source of funds for its asset growth and to meet required capital needs.

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The following schedule summarizes maturities and payments due on our obligations and commitments, excluding accrued interest, as of the date indicated:

	June 30, 2017				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
	(dollars in thousands)				
Contractual obligations					
FHLB advances	$284,500	$20,500	$41,000	$—	$346,000
Other borrowings	10,000	18,500	—	—	28,500
Subordinated debentures	—	—	—	79,800	79,800
Certificates of deposit	624,096	155,923	21,830	4,586	806,435
Operating leases	5,028	7,619	3,012	3,550	19,209
Total contractual cash obligations	$923,624	$202,542	$65,842	$87,936	$1,279,944

Off-Balance Sheet Commitments. We utilize off-balance sheet commitments in the normal course of business to meet the financing needs of our customers and to reduce our own exposure to fluctuations in interest rates. These financial instruments include commitments to originate real estate, business and other loans held for investment, undisbursed loan funds, lines and letters of credit, and commitments to purchase loans and investment securities for portfolio. The contract or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to originate loans held for investment are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Undisbursed loan funds and unused lines of credit on home equity and commercial loans include committed funds not disbursed. Letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. As of June 30, 2017, we had commitments to extend credit on existing lines and letters of credit of $1.0 billion, compared to $581 million at December 31, 2016 and $625 million at June 30, 2016.

The following table summarizes our contractual commitments with off-balance sheet risk by expiration period at the date indicated:

	June 30, 2017				
	Less than 1 year	1 - 5 years	3 - 5 years	More than 5 years	Total
	(dollars in thousands)				
Other commitments					
Commercial and industrial	$413,908	$107,837	$7,059	$31,889	$560,693
Construction	127,322	129,986	5,000	1,012	263,320
Agriculture and Farmland	33,220	6,552	2,528	1,318	43,618
Home equity lines of credit	856	6,148	2,013	50,396	59,413
Standby letters of credit	19,442	107	10,162	—	29,711
All other	16,952	3,853	8,893	14,828	44,526
Total other commitments	$611,700	$254,483	$35,655	$99,443	$1,001,281

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Regulatory Capital Compliance

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain capital in order to meet certain capital ratios to be considered adequately capitalized or well capitalized under the regulatory framework for prompt corrective action. As of the most recent formal notification from the Federal Reserve, the Company and the Bank was categorized as "well capitalized." There are no conditions or events since that notification that management believes have changed the Bank's categorization.

New comprehensive regulatory capital rules for U.S. banking organizations pursuant to the capital framework of the Basel Committee on Banking Supervision, generally referred to as "Basel III", became effective for the Company and the Bank on January 1, 2015, subject to phase-in periods for certain of their components and other provisions. The most significant of the provisions of the new capital rules which apply to the Company and the Bank are as follows: the phase-out of trust preferred securities from Tier 1 capital, the higher risk-weighting of high volatility and past due real estate loans and the capital treatment of deferred tax assets and liabilities above certain thresholds.

Beginning January 1, 2016, Basel III implemented a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively comprised of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not to the leverage ratio. At June 30, 2017, the Company and Bank are in compliance with the capital conservation buffer requirement. The capital conservation buffer will increase by 0.625% each year starting in 2016 through 2019, at which point, the common equity tier 1, tier 1 and total capital ratio minimums inclusive of the capital conservation buffer will be 7.0%, 8.5% and 10.5%, respectively.

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As defined in applicable regulations and set forth in the table below, the Company and the Bank continue to exceed the regulatory capital minimum requirements and the Bank continues to exceed the "well capitalized" standards at the dates indicated:

	Actual	Minimum Required For Capital Adequacy Purposes	Minimum Required Plus Capital Conservation Buffer Phase-In for 2017	Minimum Required Plus Capital Conservation Buffer Fully Phased-In	Minimum Required For Well Capitalized Requirement
At June 30, 2017					
Pacific Premier Bancorp, Inc. Consolidated					
Tier 1 Leverage Ratio	9.85%	4.00%	4.00%	4.00%	N/A
Common Equity Tier 1 to Risk-Weighted Assets	10.71%	4.50%	5.75%	7.00%	N/A
Tier 1 Capital to Risk-Weighted Assets	11.09%	6.00%	7.25%	8.50%	N/A
Total Capital to Risk-Weighted Assets	12.70%	8.00%	9.25%	10.50%	N/A
Pacific Premier Bank					
Tier 1 Leverage Ratio	10.54%	4.00%	4.00%	4.00%	5.00%
Common Equity Tier 1 to Risk-Weighted Assets	11.85%	4.50%	5.75%	7.00%	6.50%
Tier 1 Capital to Risk-Weighted Assets	11.85%	6.00%	7.25%	8.50%	8.00%
Total Capital to Risk-Weighted Assets	12.35%	8.00%	9.25%	10.50%	10.00%

	Actual	Minimum Required For Capital Adequacy Purposes	Minimum Required Plus Capital Conservation Buffer Phase-In for 2017	Minimum Required Plus Capital Conservation Buffer Fully Phased-In	Minimum Required For Well Capitalized Requirement
At December 31, 2016					
Pacific Premier Bancorp, Inc. Consolidated					
Tier 1 Leverage Ratio	9.78%	4.00%	4.00%	4.00%	N/A
Common Equity Tier 1 to Risk-Weighted Assets	10.12%	4.50%	5.125%	7.00%	N/A
Tier 1 Capital to Risk-Weighted Assets	10.41%	6.00%	6.625%	8.50%	N/A
Total Capital to Risk-Weighted Assets	12.72%	8.00%	8.625%	10.50%	N/A

Pacific Premier Bank					
Tier 1 Leverage Ratio	10.94%	4.00%	4.00%	4.00%	5.00%
Common Equity Tier 1 to Risk-Weighted Assets	11.65%	4.50%	5.125%	7.00%	6.50%
Tier 1 Capital to Risk-Weighted Assets	11.65%	6.00%	6.625%	8.50%	8.00%
Total Capital to Risk-Weighted Assets	12.29%	8.00%	8.625%	10.50%	10.00%

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Management believes that there have been no material changes in our quantitative and qualitative information about market risk since December 31, 2016. For a complete discussion of our quantitative and qualitative market risk, see “Item 7A. Quantitative and Qualitative Disclosure About Market Risk” in our 2016 Annual Report.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Controls

There have not been any changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this Quarterly Report on Form 10-Q relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings
There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business. Management believes that none of the legal proceedings occurring in the ordinary course of business, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

Item 1A. Risk Factors

There were no material changes to the risk factors as previously disclosed under Item 1A of our 2016 Annual Report.

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

On June 25, 2012, the board of directors authorized its second stock repurchase program. Under the repurchase program, management is authorized to repurchase up to 1,000,000 shares of the Company's common stock. The program may be limited or terminated at any time without prior notice. The following table provides information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the second quarter of 2017.

Month of Purchase	Total Number of shares purchased/ returned	Average price paid per share	Total number of shares repurchased as part of the publicly announced program	Maximum number of shares that may yet be purchased under the program at end of month
March-2017	—	—	—	762,545
April-2017	—	—	—	762,545
May-2017	—	—	—	762,545
June-2017	—	—	—	762,545
Total/Average	—	—	—	762,545

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit 10.1	Pacific Premier Bancorp, Inc. Amended and Restated 2012 Long-Term Incentive Plan, as amended (1)*
Exhibit 10.2	Form of 2012 Long-Term Incentive Plan Named Executive Officer Incentive Restricted Stock Award Agreement (1)*
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as amended
Exhibit 32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from the Registrant's Form 8-K filed with the SEC on June 2, 2017.
* Management contract or compensatory plan or agreement.

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SIGNATURES

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

PACIFIC PREMIER BANCORP, INC.,

August 4, 2017	By:	/s/ Steven R. Gardner
Date		Steven R. Gardner
		Chairman, President and Chief Executive Officer
		(principal executive officer)
August 4, 2017	By:	/s/ Ronald J. Nicolas, Jr.
Date		Ronald J. Nicolas, Jr.
		Sr. Executive Vice President and Chief Financial Officer
		(principal financial and accounting officer)

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	Index to Exhibits
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