

PACIFIC PREMIER BANCORP INC  
Form 10-Q  
November 14, 2006

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

### FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-22193

**PACIFIC PREMIER BANCORP, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**33-0743196**

(I.R.S. Employer Identification No.)

**1600 SUNFLOWER AVENUE, 2ND FLOOR, COSTA MESA, CALIFORNIA 92626**

**(714) 431 - 4000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,263,988 shares of common stock par value \$0.01 per share, were outstanding as of November 13, 2006.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES  
FORM 10-Q  
INDEX  
FOR THE QUARTER ENDED SEPTEMBER 30, 2006

PART I FINANCIAL INFORMATION

Item 1      Financial Statements.

Consolidated Statements of Financial Condition:  
At September 30, 2006 and December 31, 2005 (unaudited)

Consolidated Statements of Income:  
For the three and nine months ended September 30, 2006 and 2005 (unaudited)

Consolidated Statement of Stockholders' Equity and Comprehensive Income:  
For the three and nine months ended September 30, 2006 and 2005 (unaudited)

Consolidated Statements of Cash Flows:  
For the nine months ended September 30, 2006 and 2005 (unaudited)

Notes to Consolidated Financial Statements (unaudited)

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

Item 3      Quantitative and Qualitative Disclosures About Market Risk

Item 4      Controls and Procedures

PART II OTHER INFORMATION

Item 1      Legal Proceedings

Item 1A     Risk Factors

Item 2      Unregistered Sales of Equity Securities and Use of Proceeds

Item 3      Defaults Upon Senior Securities.

Item 4      Submission of Matters to a Vote of Security Holders

Item 5      Other Information

Item 6      Exhibits

---

**Item 1. Financial Statements.**

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in thousands)

	September 30, 2006 (Unaudited)	December 31, 2005
<b>ASSETS</b>		
Cash and due from banks	\$ 7,875	\$ 10,055
Federal funds sold	25,505	24,000
Cash and cash equivalents	33,380	34,055
Investment securities available for sale	37,998	35,850
Investment securities held to maturity:		
Federal Home Loan Bank Stock, at cost	15,117	13,945
Loans:		
Loans held for sale, net	1,223	456
Loans held for investment, net of allowance of \$3,083 (2006) and \$3,050 (2005)	593,735	602,937
Accrued interest receivable	3,343	3,007
Foreclosed real estate	264	211
Premises and equipment	6,360	5,984
Current income taxes	386	133
Deferred income taxes	6,936	5,188
Bank Owned Life Insurance	10,212	
Other assets	3,298	967
Total Assets	\$ 712,252	\$ 702,733
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Deposit accounts		
Noninterest bearing	\$ 25,153	\$ 21,803
Interest bearing:		
Transaction accounts	68,085	60,015
Retail certificates of deposit	192,640	188,014
Wholesale/brokered certificates of deposit	35,624	58,104
Total Deposits	321,502	327,936
Borrowings	312,000	307,835
Subordinated debentures	10,310	10,310
Accrued expenses and other liabilities	11,305	6,073
Total Liabilities	\$ 655,117	\$ 652,154
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$.01 par value; 15,000,000 shares authorized; 5,263,988 (2006) and 5,228,438 (2005) shares issued and outstanding	\$ 53	\$ 53
Additional paid-in capital	67,618	67,198
Accumulated deficit	(9,908)	(16,059)
Accumulated other comprehensive loss, net of tax of \$429 (2006) and \$428 (2005)	(628)	(613)
Total Stockholders Equity	\$ 57,135	\$ 50,579
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 712,252</b>	<b>\$ 702,733</b>

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

1

---

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
<b>INTEREST INCOME:</b>				
Loans	\$ 10,658	\$ 8,230	\$ 30,504	\$ 22,585
Other interest-earning assets	678	510	1,941	1,422
<b>Total interest income</b>	<b>11,336</b>	<b>8,740</b>	<b>32,445</b>	<b>24,007</b>
<b>INTEREST EXPENSE:</b>				
Interest on Transaction accounts	430	307	1,191	844
Interest on Certificates of deposit	2,581	1,838	7,297	4,892
Total deposit interest expense	3,011	2,145	8,488	5,736
Other borrowings	4,028	2,125	10,429	5,139
Subordinated debentures	211	162	592	446
<b>Total interest expense</b>	<b>7,250</b>	<b>4,432</b>	<b>19,509</b>	<b>11,321</b>
NET INTEREST INCOME	4,086	4,308	12,936	12,686
PROVISION FOR LOAN LOSSES		56	104	292
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,086	4,252	12,832	12,394
<b>NONINTEREST INCOME:</b>				
Loan servicing fee income	369	513	1,113	1,001
Bank and other fee income	136	125	370	383
Net gain from loan sales	1,462	270	2,321	364
Other income	219	148	548	1,214
<b>Total noninterest income</b>	<b>2,186</b>	<b>1,056</b>	<b>4,352</b>	<b>2,962</b>
<b>NONINTEREST EXPENSE:</b>				
Compensation and benefits	2,389	1,914	6,937	5,614
Premises and occupancy	580	391	1,683	1,034
Data processing	99	86	284	249
Net (gain) loss on foreclosed real estate	26	18	69	(7)
Legal and audit	118	170	380	518
Marketing expense	215	65	563	174
Office and postage expense	102	92	299	276
Other expense	394	341	1,120	922
<b>Total noninterest expense</b>	<b>3,923</b>	<b>3,077</b>	<b>11,335</b>	<b>8,780</b>
INCOME BEFORE INCOME TAXES	2,349	2,231	5,849	6,576
PROVISION (BENEFIT) FOR INCOME TAXES	845	398	(302)	1,056
NET INCOME	\$ 1,504	\$ 1,833	\$ 6,151	\$ 5,520
<b>INCOME PER SHARE:</b>				
Basic income per share	\$ 0.29	\$ 0.35	\$ 1.17	\$ 1.05
Diluted income per share	\$ 0.23	\$ 0.27	\$ 0.92	\$ 0.83
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>				
Basic	5,263,988	5,259,241	5,261,195	5,258,907

Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

Diluted	6,684,649	6,691,665	6,685,263	6,650,164
---------	-----------	-----------	-----------	-----------

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

2

---

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005  
(Dollars in thousands)  
(UNAUDITED)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2004	5,258,738	\$ 53	\$ 67,564	(\$23,280 )	(\$309 )		\$ 44,028
Net income				5,520		\$ 5,520	5,520
Unrealized loss on investments, net of tax of (\$171)					(247 )	(247 )	(247 )
Total comprehensive income						\$ 5,273	
Shares repurchased	(2,500 )		(26 )				(26 )
Stock options exercised	3,750		29				29
Balance at September 30, 2005	5,259,988	\$ 53	\$ 67,567	(\$17,760 )	(\$556 )		\$ 49,304

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)	Total Stockholders Equity
Balance at December 31, 2005	5,228,438	\$ 53	\$ 67,198	(\$16,059 )	(\$613 )		\$ 50,579
Net income				6,151		\$ 6,151	6,151
Unrealized loss on investments, net of tax of (\$1)					(15 )	(15 )	(15 )
Total comprehensive income						\$ 6,136	
Shares repurchased	(2,750 )						
Restricted stock issued	34,550		363				363
Restricted stock forfeited	(2,750 )						
Stock options exercised	6,500		57				57
Balance at September 30, 2006	5,263,988	\$ 53	\$ 67,618	(\$9,908 )	(\$628 )		\$ 57,135

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(UNAUDITED)

	Nine Months Ended September 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 6,151	\$ 5,520
Adjustments to net income:		
Depreciation expense	295	256
Provision for loan losses	104	292
Loss on sale and disposal of premises and equipment	8	
Loss on sale, provision, and write-down of foreclosed real estate	100	119
Net unrealized loss and amortization on investment securities	57	241
Gain on sale of loans held for investment	(2,321 )	(364 )
Proceeds from the sales of, and principal payments from, loans held for sale	161	27
Change in current and deferred income tax receivable	(2,001 )	(957 )
Increase in accrued expenses and other liabilities	5,232	2,571
Federal Home Loan Bank stock dividend	(523 )	(170 )
Income from bank owned life insurance	(212 )	
Increase in other assets	(2,667 )	(1,095 )
<b>Net cash provided by operating activities</b>	<b>4,384</b>	<b>6,440</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale and principal payments on loans held for investment	249,554	86,264
Purchase, origination and advances of loans held for investment	(239,496 )	(188,722 )
Proceeds from sale of foreclosed real estate	280	150
Purchase of securities available for sale	(2,220 )	
Increase in premises and equipment	(679 )	(911 )
Purchase of bank owned life insurance	(10,000 )	
Purchase of FHLB stock	(649 )	(4,789 )
<b>Net cash used in investing activities</b>	<b>(3,210 )</b>	<b>(108,008 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (decrease) increase in deposit accounts	(6,434 )	35,751
(Repayment of) proceeds from FHLB advances	(7,835 )	93,500
Proceeds from (repayment of) other borrowings	12,000	(17,400 )
Proceeds from exercise of stock options	57	3
Proceeds from issuance of restricted stock	363	
<b>Net cash (used in) provided by financing activities</b>	<b>(1,849 )</b>	<b>111,854</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(675 )</b>	<b>10,286</b>
CASH AND CASH EQUIVALENTS, beginning of period	34,055	16,003
CASH AND CASH EQUIVALENTS, end of period	\$ 33,380	\$ 26,289
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Interest paid	\$ 19,524	\$ 11,233
Income taxes paid	\$ 1,345	\$ 2,049
<b>NONCASH INVESTING ACTIVITIES DURING THE PERIOD:</b>		
Transfers from loans to foreclosed real estate	\$ 433	\$ 287
Transfer loans from held for investment	\$ 1,223	\$
Transfer loans from held for sale	\$ 279	\$

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

4

---

**PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

**(UNAUDITED)**

**Note 1 Basis of Presentation**

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

In the opinion of management, the unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of September 30, 2006, the results of its operations for the three and nine months ended September 30, 2006 and 2005, changes in stockholders' equity, comprehensive income and cash flows for the nine months ended September 30, 2006 and 2005. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending December 31, 2006.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

The pro forma effects of applying SFAS No. 123 are disclosed for the periods shown below:

	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
	<b>(dollars in thousands, except per share data)</b>	
<b>Net income to common stockholders:</b>		
As reported	\$ 1,833	\$ 5,520
<b>Stock-based compensation that would have been reported using the fair value method of SFAS 123</b>		
Pro forma	\$ 1,833	\$ 5,520
<b>Basic earnings per share:</b>		
As reported	\$ 0.35	\$ 1.05
Pro forma	\$ 0.35	\$ 1.05
<b>Diluted earnings per share:</b>		
As reported	\$ 0.27	\$ 0.83
Pro forma	\$ 0.27	\$ 0.83

**Note 2 Recently Issued Accounting Pronouncements**

In February 2006, the Financial Accounting Standards Board, ( FASB ), issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments ( SFAS 155 ), which provides the following: 1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, 2) clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, 3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, 4) clarifies that concentrations of credit in the form of subordination are not embedded derivatives, and 5) amends Statement of Financial Accounting Standards No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement 125 to eliminate the prohibition of a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 for accounting for certain hybrid financial instruments is effective for us beginning January 1, 2007. Adoption of SFAS 155 is not expected to have a material impact on the Company.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets ( SFAS 156 ), which provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized, 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur, 4) upon initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value, and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. SFAS 156 is effective for us beginning January 1, 2007 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. The impact to retained earnings of the Company as a result of the initial adoption of SFAS 156 is expected to be immaterial.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, ( SFAS 157). SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS 157 is effective for us beginning January 1, 2007 and is not expected to have a material impact on the Company.

**Note 3 Regulatory Matters**

The Bank's capital amounts and ratios are presented in the following table:

	Actual Amount (dollars in thousands)	Ratio		To be adequately capitalized Amount	Ratio		To be well capitalized Amount	Ratio	
<b>At September 30, 2006 (Unaudited)</b>									
Total Capital (to risk-weighted assets)	\$ 62,229	11.89 %	\$	41,854	8.00 %	\$	52,318	10.00 %	
Tier 1 Capital (to adjusted tangible assets)	59,312	8.40 %		28,235	4.00 %		35,294	5.00 %	
Tier 1 Risk-Based Capital (to risk-weighted assets)	59,312	11.34 %		20,927	4.00 %		31,391	6.00 %	
<b>At December 31, 2005</b>									
Total Capital (to risk-weighted assets)	\$ 57,135	11.78 %	\$	38,793	8.00 %	\$	48,492	10.00 %	
Tier 1 Capital (to adjusted tangible assets)	54,376	7.79 %		27,935	4.00 %		34,919	5.00 %	
Tier 1 Risk-Based Capital (to risk-weighted assets)	54,376	11.21 %		19,397	4.00 %		29,095	6.00 %	

**Note 4 Borrowings**

At September 30, 2006, the Bank had \$7.0 million on its \$100 million credit facility with Salomon Brothers. At September 30, 2006, the Bank had one advance in the amount of \$1.0 million at a rate of 6.00% per annum against its \$18.7 million credit facility, secured by mutual funds pledged to Pershing LLC. The Bank also had Fed Funds purchased in the amount of \$5.0 million at a rate of 5.40% per annum. Additionally, the Company had \$299.0 million in Federal Home Loan Bank ( FHLB ) advances with a weighted average interest rate of 5.24% and a weighted average maturity of 0.26 years as of September 30, 2006. As of such date, advances from the FHLB are collateralized by pledges of certain real estate loans with an aggregate principal balance of \$460.3 million. As of September 30, 2006, the Bank was able to borrow up to 45% of its total assets as of June 30, 2006 under the line, which amounted to \$319.3 million, an increase of \$12.9 million from the quarter ended June 30, 2006. FHLB advances consisted of the following as of September 30, 2006:

FHLB Advances Maturing in:	Amount (dollars in thousands)	Percent of Total		Weighted Average Annual Interest Rate	
One month or less	\$ 74,000	24.75 %		5.59 %	
Over one month to three months	140,000	46.82 %		4.86 %	
Over three months to six months	25,000	8.36 %		5.63 %	
Over six months to one year	60,000	20.07 %		5.53 %	
Over one year	0	0.00 %		0.00 %	
Total FHLB advances	\$ 299,000	100.00 %		5.24 %	

**Note 5 Subordinated Debentures**

In March 2004, the Corporation issued \$10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the Subordinated Debentures ) to PPBI Trust I, which funded the payment of \$10.0 million of Floating Rate Trust Preferred Securities issued by PPBI Trust I in March 2004. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 8.26% per annum as of September 30, 2006.

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



**Note 6 Earnings Per Share**

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing income available to common stockholders including common stock equivalents, such as outstanding stock options and warrants by the weighted average number of common shares and common stock equivalents outstanding for the period. Stock options totaling 85,897 and 109,247 shares for September 30, 2006 and September 30, 2005, respectively, were excluded from the computation of diluted earnings per share due to their exercise price exceeding the average market price.

The table below set forth the Company's unaudited earnings per share calculations for the three and nine months ended September 30, 2006 and 2005.

	For the Three Months Ended September 30, 2006			2005		
	Net Earnings (dollars in thousands)	Shares	Per Share Amount	Net Earnings	Shares	Per Share Amount
Net Earnings	\$ 1,504			\$ 1,833		
Basic EPS Earnings available to common stockholders	\$ 1,504	5,263,988	\$ 0.29	\$ 1,833	5,259,241	\$ 0.35
Effect of Warrants and dilutive stock options		1,420,661			1,432,424	
Diluted EPS Earnings Available to common stockholders plus assumed conversions	\$ 1,504	6,684,649	\$ 0.23	\$ 1,833	6,691,665	\$ 0.27
	For the Nine Months Ended September 30, 2006			2005		
	Net Earnings (dollars in thousands)	Shares	Per Share Amount	Net Earnings	Shares	Per Share Amount
Net Earnings	\$ 6,151			\$ 5,520		
Basic EPS Earnings available to common stockholders	\$ 6,151	5,261,195	\$ 1.17	\$ 5,520	5,258,907	\$ 1.05
Effect of Warrants and dilutive stock options		1,424,068			1,391,257	
Diluted EPS Earnings Available to common stockholders plus assumed conversions	\$ 6,151	6,685,263	\$ 0.92	\$ 5,520	6,650,164	\$ 0.83

**Note 7 Valuation Allowance for Deferred Income Taxes**

During the second quarter of 2006, the Company reversed the remaining valuation allowance of \$1.9 million, as the deferred tax assets were determined, more likely than not, to be realized based on the Company's quarterly analysis of its valuation allowance for deferred taxes. The Company benefited from the reduction in its valuation allowance for deferred taxes for the nine months ended September 30, 2006 and for the three and nine months ended September 30, 2005 of \$2.4 million, \$500,000, and \$1.5 million, respectively. The Company's valuation allowance for deferred taxes was zero at September 30, 2006.



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

**FORWARD-LOOKING STATEMENTS**

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

**GENERAL**

The following presents management's discussion and analysis of the consolidated financial condition and operating results of the Company for the three and nine months ended September 30, 2006 and 2005. The discussion should be read in conjunction with the Company's Management Discussion and Analysis included in the 2005 Annual Report on Form 10-K, plus the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this report. The results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results expected for the year ending December 31, 2006.

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

The Bank was founded in 1983 as a state chartered savings and loan and became a federally chartered stock savings bank in 1991. The Bank is a member of the FHLB of San Francisco, which is a member bank of the Federal Home Loan Bank System. The Bank's deposit accounts are insured up to the \$100,000 maximum amount, except for retirement accounts which are insured up to the \$250,000 maximum currently allowable under federal laws by the Deposit Insurance Fund, which is an insurance fund administered by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to examination and regulation by the Office of Thrift Supervision (OTS), its primary federal regulator, and by the FDIC.

The Company is a financial services organization committed to serving consumers and small businesses in Southern California. The Bank operates five depository branches in Southern California located in the cities of San Bernardino, Seal Beach, Huntington Beach, Los Alamitos, and Costa Mesa, and a Small Business Administration (SBA) loan production office in Pasadena, California. The Company's corporate headquarters are located in Costa Mesa, California. In the first quarter of 2007, the Bank will be opening its sixth depository branch in the city of Newport Beach, California. The Bank, through its branches and web site at [www.PPBI.net](http://www.PPBI.net) on the Internet, offers a broad array of deposit products and services for both commercial and consumer customers including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. Additionally, the Bank offers a wide array of loan products, such as commercial business loans, lines of credit, commercial real estate loans, SBA loans, residential home loans, and home equity loans. The Bank funds its lending and investment activities with retail deposits obtained through its branches, advances from the FHLB of San Francisco, lines of credit, and wholesale and brokered certificates of deposits.

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

**CRITICAL ACCOUNTING POLICIES**

Management has established various accounting policies which govern the application of accounting principles generally accepted in the United States of America in the preparation of the Company's financial statements. The



Company's significant accounting policies are described in the Notes to the Consolidated Financial Statements in our 2005 Annual Report on Form 10-K. Certain accounting policies require management to make estimates and assumptions which have a material impact on the carrying value of certain assets and liabilities; management considers these to be critical accounting policies. The estimates and assumptions management uses are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at balance sheet dates and the Company's results of operations for future reporting periods.

Management believes that the allowance for loan losses is the critical accounting policy that requires estimates and assumptions in the preparation of the Company's financial statements that are most susceptible to significant change. For further information, see "Allowances for Loan Losses" discussed later in this document and in our 2005 Annual Report on Form 10-K.

## **FINANCIAL CONDITION**

Total assets of the Company were \$712.3 million as of September 30, 2006, compared to \$702.7 million as of December 31, 2005. The \$9.6 million, or 1.3%, increase in total assets is primarily due to the purchase of \$10.0 million of Bank Owned Life Insurance ( BOLI ) at the end of March 2006, which is classified in other assets, and an increase in investments of \$3.3 million, which was partially offset by a decrease in net loans of \$8.4 million.

### **Investment Securities**

A summary of the Company's securities as of September 30, 2006 and December 31, 2005 is as follows:

	<b>September 30, 2006</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Estimated</b>
	<b>Amortized</b>	<b>Gain</b>	<b>Loss</b>	<b>Market Value</b>
	<b>Cost</b>			
	<b>(in thousands)</b>			
<b>Securities Available for Sale:</b>				
Mortgage-Backed Securities(1)	\$ 11,337	\$	\$ (108 )	\$ 11,229
Mutual Funds(2)	27,719		(950 )	26,769
Total securities available for sale	\$ 39,056	\$	\$ (1,058 )	\$ 37,998
<b>Securities Held to Maturity:</b>				
FHLB Stock	\$ 15,117	\$	\$	\$ 15,117
Total securities held to maturity	\$ 15,117	\$	\$	\$ 15,117
Total securities	\$ 54,173	\$	\$ (1,058 )	\$ 53,115
	<b>December 31, 2005</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Estimated</b>
	<b>Amortized</b>	<b>Gain</b>	<b>Loss</b>	<b>Market Value</b>
	<b>Cost</b>			
	<b>(in thousands)</b>			
<b>Securities Available for Sale:</b>				
Mortgage-Backed Securities	\$ 9,171	\$	\$ (112 )	\$ 9,059
Mutual Funds	27,719		(928 )	26,791
Total securities available for sale	\$ 36,890	\$	\$ (1,040 )	\$ 35,850
<b>Securities Held to Maturity:</b>				
FHLB Stock	\$ 13,945	\$	\$	\$ 13,945
Total securities held to maturity	\$ 13,945	\$	\$	\$ 13,945
Total securities	\$ 50,835	\$	\$ (1,040 )	\$ 49,795

(1) At September 30, 2006, mortgage-backed securities consisted of two collateralized mortgage obligations ( CMO ) with a carrying value of \$11.3 million. One CMO with a carrying value of \$9.0 million is secured by the Federal Home Loan Mortgage Corporation, the other CMO with a carrying value of \$2.3 million is a AAA rated private label issue.



(2) The Company's mutual fund investments are with Shay Assets Management Inc, within their AMF Ultra Short Mortgage fund and their AMF Intermediate Mortgage fund. Both of these funds qualified for inclusion in the 20% risk-weighting capital category for the quarter ended September 30, 2006. An aggregate of \$1.4 million of the mutual funds have been pledged to Pershing, LLC to secure an advance of \$1.0 million under the Bank's \$18.7 million line of credit.

### Investment Securities by Contractual Maturity

As of September 30, 2006

(dollars in thousands)

	One Year or Less Carrying Value	Yield		More than One to Five Years Carrying Value	Yield		More than Five to Ten Years Carrying Value	Yield		More than Ten Years Carrying Value	Yield	Total Carrying Value	Yield					
Mortgage-Backed Securities	\$	0.00	%	\$	0.00	%	\$	0.00	%	\$	11,229	4.76	%	\$	11,229	4.76	%	
Mutual Fund	26,769	4.60	%		0.00	%		0.00	%		0.00	%	26,769	4.60	%			
Total securities available for sale	26,769	4.60	%		0.00	%		0.00	%	11,229	4.76	%	37,998	4.65	%			
FHLB Stock	15,117	5.16	%		0.00	%		0.00	%		0.00	%	15,117	5.16	%			
Total securities held to maturity	15,117	5.16	%		0.00	%		0.00	%		0.00	%	15,117	5.16	%			
Total securities	\$	41,886	4.80	%	\$	0.00	%	\$	0.00	%	\$	11,229	4.76	%	\$	53,115	4.79	%

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

### Loans

Gross loans outstanding totaled \$597.1 million at September 30, 2006 compared to \$605.0 million at December 31, 2005. The \$7.9 million decrease is primarily due to the Bank selling \$142.5 million of multi-family loans, which generated net gains of \$2.3 million, and the prepayment of loans totaling \$87.8 million, which generated loan servicing fee income of \$852,000. Partially offsetting the loan sales and loan prepayments was the origination of \$239.5 million of new loans, consisting of \$131.4 million of multi-family, \$56.4 million of commercial and land, one single-family residential loan of \$500,000, and business loans comprised of \$26.2 million of commercial owner-occupied loans, \$18.2 million of commercial and industrial loans, and \$6.7 million of SBA loans. Management has utilized loan sales to manage its liquidity, interest rate risk, loan to deposit ratio, diversification of its loan portfolio, and net balance sheet growth, and expects to continue to do so for the foreseeable future. The Bank's pipeline of new loans at September 30, 2006 was \$98.2 million.

The Company's commercial real estate secured loans grew during the nine months ended September 30, 2006 by \$51.4 million, an annualized rate of 54.6%.

For the three months ended September 30, 2006, the Bank originated \$43.8 million and \$30.6 million of multi-family and commercial real estate loans, respectively, as well as \$8.3 million, \$8.5 million, and \$5.4 million of commercial owner-occupied loans, commercial and industrial loans, and SBA loans, respectively. For the nine months



Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

ended September 30, 2006, multi-family and commercial real estate originations totaled \$131.4 million and \$56.4 million, respectively, while the commercial owner-occupied loans, commercial and industrial loans, and SBA loan originations totaled \$26.2 million, \$18.2 million, and \$6.7 million, respectively. Principal repayments and loan sales for the three months ended September 30, 2006 totaled \$40.0 million and \$65.2 million, respectively, and principal repayments and loan sales for the nine months ended September 30, 2006 totaled \$94.6 million and \$144.0 million, respectively.

A summary of the Company's loan originations, loan sales and principal repayments for the nine months ended September 30, 2006 and 2005 are as follows:

	<b>For the Nine Months Ended September 30, 2006 (in thousands)</b>	<b>September 30, 2005</b>
Beginning balance, gross	\$ 604,976	\$ 471,609
Loans originated:		
Real Estate:		
Multi-family	131,440	128,194
Commercial and land	56,409	56,242
One to four family(1)	500	1,944
Business Loans:		
Commercial Owner Occupied(1)	26,187	
Commercial and Industrial(1)	18,248	5,267
SBA(1)	6,712	
Other		1
Total loans originated	239,496	191,648
Total	844,472	663,257
Less:		
Principal repayments	94,631	55,670
Change in undisbursed loan funds	8,275	1,350
Net Charge-offs	71	18
Loan Sales	144,012	31,823
Transfers to Real Estate Owned	433	287
Total Gross loans	597,050	574,109
Less ending balance loans held for sale (gross)	1,223	370
Ending balance loans held for investment (gross)	\$ 595,827	\$ 573,739

(1) Includes lines of credit

12

Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

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

	September 30, 2006			December 31, 2005		
	Amount (dollars in thousands)	Percent of Total	Weighted Average Interest Rate	Amount	Percent of Total	Weighted Average Interest Rate
<b>Real Estate Loans:</b>						
Multi-family	\$ 386,865	64.81 %	6.76 %	\$ 459,714	75.99 %	6.07 %
Commercial and land	144,922	24.27 %	7.25 %	123,364	20.39 %	6.73 %
One-to-four family(1)	13,067	2.19 %	9.70 %	16,561	2.74 %	9.63 %
<b>Business Loans:</b>						
Commercial Owner Occupied	31,890	5.34 %	7.17 %	2,062	0.34 %	7.32 %
Commercial and Industrial	16,077	2.69 %	8.93 %	3,248	0.54 %	7.95 %
SBA	4,203	0.70 %	10.14 %		0.00 %	0.00 %
Other Loans	26	0.00 %	12.01 %	27	0.00 %	11.90 %
Total Gross loans	\$ 597,050	100.00 %	7.04 %	\$ 604,976	100.00 %	6.30 %

(1) Includes second trust deeds.

The following table sets forth the repricing characteristics of the Company's multi-family and commercial real estate (excluding land) and commercial owner occupied loan portfolio in dollar amounts as of September 30, 2006:

	Number of Loans	Amount (dollars in thousands)	Weighted Average Interest Rate	Months to Reprice
ARM *	366	\$ 278,173	7.360 %	1.82
3 Year	142	143,714	6.200 %	23.74
5 Year	91	95,202	6.575 %	47.01
7 Year	13	8,059	6.966 %	78.83
10 Year	11	10,370	6.805 %	117.74
Fixed	24	24,875	6.917 %	
	647	\$ 560,393	6.894 %	19.14

\* Includes three and five year hybrid loans that have reached their initial repricing date.

**Allowance for Loan Losses**

The allowance for loan losses totaled \$3.1 million as of September 30, 2006 and \$3.1 million as of December 31, 2005. The allowance for loan losses as a percent of nonperforming loans was 539.9% and 180.8% as of September 30, 2006 and December 31, 2005, respectively. The increase in allowance for loan losses as a percent of nonperforming loans of 359.14% is primarily due to a decrease in total net nonperforming loans of \$1.0 million from December 31, 2005 to September 30, 2006.

The Company's determination of the level of the allowance for loan losses and, correspondingly, the provision for loan losses, rests upon various judgments and assumptions. The allowance for the one-to-four family residential loan portfolio is primarily based upon the Bank's historical loss experience from charge-offs and real estate owned for the last 37 quarters, and a historical delinquency migration analysis. For the multi-family and commercial real estate loan portfolio, the Bank analyzes and uses the 14.5 year historical loan loss experience for California's multi-family and commercial real estate secured loans compiled by the FDIC to determine its loss factors, since the Bank has not experienced any losses or delinquency on its own loans within this loan portfolio. For the commercial and industrial loan



Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

portfolio, along with the non-guarantee portion of the SBA portfolio, the Bank bases the level of allowance on the type of collateral and 14.5 year historical loan loss experience for commercial business loans compiled by the FDIC. Given the composition of the Company's loan portfolio, the \$3.1 million allowance for loan losses was considered adequate to cover losses inherent in the Company's loan portfolio at September 30, 2006. However, no assurance can be given that the Company will not, in any particular period, sustain loan losses that exceed the amount reserved, or that subsequent evaluation of the loan portfolio, in light of the prevailing factors, including economic conditions which may adversely affect the Company's 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 the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additional provisions to increase the allowance or take charge-offs in anticipation of future losses.

The table below summarizes the activity of the Company's allowance for loan losses for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2005	
	2006 (in thousands)	2005	2006	2005
Balance, beginning of period	\$ 2,967	\$ 2,779	\$ 3,050	\$ 2,626
Provision for loan losses		56	104	292
Charge-offs				
Real estate:				
Multi-family				
Commercial and land				
Construction				
One-to-four family	(30)	(38)	(266)	(206)
Business Loans:				
Commercial Owner Occupied				
Commercial and Industrial				
SBA loans				
Other loans				(6)
Total charge-offs	(30)	(38)	(266)	(212)
Recoveries				
Real estate:				
Multi-family				
Commercial and land				
Construction		74		74
One-to-four family	146	25	193	97
Business Loans:				
Commercial Owner Occupied				
Commercial and Industrial				
SBA loans				
Other loans		4	2	23
Total recoveries	146	103	195	194
Net (charge-offs) recoveries	116	65	(71)	(18)
Balance, end of period	\$ 3,083	\$ 2,900	\$ 3,083	\$ 2,900

**Composition of Nonperforming Assets**

The table below summarizes the Company's composition of nonperforming assets as of the dates indicated. Net nonperforming assets totaled \$752,000 at September 30, 2006 and \$1.7 million as of December 31, 2005, or 0.11% and 0.24% of total assets, respectively. The decrease in the total nonperforming assets is primarily due to decreases in net nonperforming one-to-four family loans of \$1.0 million. All nonperforming assets are concentrated in the Bank's single family residential loans and are associated with its prior origination of sub-prime mortgages, which were discontinued in the year 2000.

	At September 30, 2006 (dollars in thousands)	At December 31, 2005	
Nonperforming assets:			
Real Estate:			
Multi-family			
Commercial and land			
One-to-four family	\$ 571	\$ 1,687	
Business Loans:			
Commercial Owner Occupied			
Commercial and Industrial			
SBA			
Other loans			
Total nonaccrual loans	571	1,687	
Foreclosures in process			
Specific allowance	(83 )	(185 )	
Total nonperforming loans, net	488	1,502	
Foreclosed real estate owned	264	211	
Total nonperforming assets, net(1)	\$ 752	\$ 1,713	
Restructured Loans	\$	\$	
Allowance for loan losses as a percent of gross loans receivable(2)	0.52	%	0.50 %
Allowance for loan losses as a percent of total nonperforming loans, gross	539.93	%	180.79 %
Nonperforming loans, net of specific allowances, as a percent of gross loans receivable	0.08	%	0.25 %
Nonperforming assets, net of specific allowances, as a percent of total assets	0.11	%	0.24 %

(1) Nonperforming assets consist of nonperforming loans and REO. Nonperforming loans consisted of all loans 90 days or more past due and foreclosures in process less than 90 days and still accruing interest.

(2) Gross loans include loans receivable that are held for investment and are held for sale.

**Liabilities and Stockholders' Equity**

Total liabilities of the Company increased from \$652.2 million at December 31, 2005 to \$655.1 million at September 30, 2006. The increase is primarily due to increases in other liabilities and other borrowings of \$5.2 million and \$4.2 million, respectively, which were partially offset by a decrease in deposits of \$6.4 million.

The Company had \$312.0 million in FHLB advances and other borrowings as of September 30, 2006, compared to \$307.8 million in such borrowings at December 31, 2005. Advances from the FHLB are collateralized by pledges of certain real estate loans with an aggregate principal balance of \$460.3 million at September 30, 2006. The Bank may borrow up to 45% of its assets under the line. As of September 30, 2006, the maximum the Bank may borrow was \$319.3 million, based on the Bank's assets as of June 30, 2006. The total cost of the Company's borrowings at September 30, 2006 was 5.34%, an increase of 182 basis points compared to the same period in 2005.



Deposits decreased by \$6.4 million to \$321.5 million at September 30, 2006, compared to \$327.9 million of deposits at December 31, 2005. The decrease in deposits is due to a decrease of \$22.5 million in brokered certificate of deposits, which was partially offset by increases of \$11.4 million in transaction accounts and noninterest deposits and \$4.6 million in retail certificates of deposits, respectively. The cost of deposits as of September 30, 2006 was 3.91%, an increase of 75 basis points since December 31, 2005.

During the three months ended September 30, 2006, the cost of funds increased 148 basis points to 4.56% compared to the same period in 2005.

Total stockholder's equity increased \$6.6 million to \$57.1 million at September 30, 2006, compared to \$50.6 million at December 31, 2005, primarily due to net income during this period.

## **RESULTS OF OPERATIONS**

### **Highlights for the three and nine months ended September 30, 2006 and 2005:**

The Company recorded third quarter net income of \$1.5 million, or \$0.23 per diluted share, compared to net income of \$1.8 million, or \$0.27 per diluted share, for the third quarter of 2005, a decrease of 17.9% in net income. The net income for the nine months ended September 30, 2006 was \$6.2 million, or \$0.92 per diluted share, compared to net income of \$5.5 million, or \$0.83 per diluted share, for the nine months ended September 30, 2005, an increase of 11.4% in net income. All diluted earnings per share amounts have been adjusted to reflect the dilutive effect of all warrants and stock options, except for options whose exercise price exceeds the closing market price as of September 30, 2006, outstanding. See Note 6 Earnings Per Share.

Return on average assets (ROAA) for the three and nine months ended September 30, 2006 was 0.86% and 1.19% compared to 1.16% and 1.24% for the same periods in 2005. The Company's return on average equity (ROAE) for the three and nine months ended September 30, 2006 was 10.38% and 15.16%, respectively, compared to 14.95% and 15.74%, respectively, for the three and nine months ended September 30, 2005. The Company's basic and diluted book value per share increased to \$10.85 and \$9.02, respectively, at September 30, 2006, reflecting annualized increases of 16.27% and 15.33%, respectively, from December 31, 2005. Options whose exercise price exceeds the closing market price as of September 30, 2006 are excluded from the diluted book value calculation.

### **Net Interest Income**

The Company's earnings are derived predominately from net interest income, which is the difference between the interest income earned on interest-earning assets, primarily loans and securities, and the interest expense incurred on interest-bearing liabilities, primarily deposits and borrowings. The net interest margin is the net interest income divided by the average interest-earning assets.

For the three and nine months ended September 30, 2006, net interest income was \$4.1 million and \$12.9 million, respectively, compared to \$4.3 million and \$12.7 million for the same periods a year earlier. The increase for the nine month period is predominately attributable to a 35.1% growth in interest income, from \$24.0 million to \$32.4 million. Growth in interest income was predominately attributable to a 14.8% increase in average loans outstanding of \$78.6 million and a 17.6% increase in the average loan yield to 6.68% from 5.68%, over the prior year period. The increase in loan yield is, in part, a direct reflection of the Bank's focus on originating higher yielding loans to businesses within the Bank's market area plus the selling of lower yielding multifamily loans. Partially offsetting the increase in interest income was an increase in interest expense for the nine months ended September 30, 2006 of 72.3%, or \$8.2 million. The increase in interest expense was attributable to increases in average deposits outstanding of \$24.5 million and average borrowings of \$63.0 million, as well as the increase in the average cost of deposits and borrowings of 95 and 173 basis points, respectively, over the prior year period. For the three month period, the \$222,000 decrease in net interest income is primarily due to the \$1.9 million increase in interest expense on borrowings and the \$865,000 increase in deposit interest expense that was partially offset by the \$2.4 million increase in loan interest income. The three month average loan yield increased to 6.97% for the period ended September 30, 2006 from 5.84% for the same period last year.

The Company's net interest margin for the quarter ended September 30, 2006 was 2.46% compared to 2.81% for the same period a year ago. The decrease was primarily attributable to increases in the average cost of deposits and borrowings of 96 and 196 basis points, respectively, which was partially offset by an increase in the average rate earned on loans of 112 basis points. The increase in the cost of funds is attributable to the overall rising interest rate environment, which has led to higher borrowing cost associated with the Bank's FHLB advances. Additionally, strong competitor deposit pricing within the Bank's primary markets have impacted the cost of deposits. The Company's net interest margin for the nine months ended September 30, 2006 was 2.61% compared to 2.93% for the same period a year ago. The increase in earning assets yields are primarily due to the repricing of the Bank's adjustable rate loans together with the change in the loan portfolio mix to higher yielding commercial real estate and business loans. At September 30, 2006, the Bank's loan portfolio was comprised of \$565.7 million of adjustable-rate loans, representing 94.8 of its total loan portfolio at such date. These loans, which include fixed rate hybrid loans with initial terms of 3, 5, 7 and 10 years that become adjustable-rate loans after the initial fixed rate period, have an overall average time to reprice of 18.3 months. The adjustable-rate loan portfolio contains \$193.9 million of loans that are scheduled to reprice in October 2006, of which \$129.2 million is indexed to the 12 Month Treasury Average rate (12-MTA), a lagging index, and \$25.1 million that is indexed to the six-month LIBOR rate.

The following table sets forth the Company's average balance sheets and the related weighted average yields and costs on average interest-earning assets and interest-bearing liabilities, for the three and nine months ended September 30, 2006 and 2005. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are measured on a daily basis. The yields and costs include fees that are considered adjustments to yields.

Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

	Three Months Ended September 30, 2006			Average Annualized Yield/Cost	Three Months Ended September 30, 2005			Average Annualized Yield/Cost
	Average Balance (dollars in thousands)	Interest			Average Balance	Interest		
<b>Assets</b>								
Interest-earning assets:								
Cash and cash equivalents	\$ 377	\$ 22	23.34	%	\$ 864	\$ 16	7.41	%
Federal funds sold	1,376	18	5.13	%	403	4	3.70	%
Investment securities	50,790	638	5.02	%	48,025	491	4.09	%
Loans receivable	611,760	10,658	6.97	%	563,260	8,230	5.84	%
Total interest-earning assets	664,303	11,336	6.83	%	612,552	8,741	5.71	%
Non-interest-earning assets	36,357				17,201			
Total assets	\$ 700,660				\$ 629,753			
<b>Liabilities and Equity</b>								
Interest-bearing liabilities:								
Transaction accounts	\$ 93,522	\$ 430	1.84	%	\$ 80,739	\$ 308	1.53	%
Retail certificates of deposit	192,945	2,215	4.59	%	173,742	1,432	3.30	%
Wholesale/brokered certificates of deposit	29,408	366	4.98	%	46,821	406	3.47	%
Total interest-bearing deposits	315,875	3,011	3.81	%	301,302	2,146	2.85	%
Borrowings	309,355	4,028	5.21	%	263,674	2,125	3.22	%
Subordinated debentures	10,310	211	8.19	%	10,310	162	6.29	%
Total borrowings	319,665	4,239	5.30	%	273,984	2,287	3.34	%
Total interest-bearing liabilities	635,540	7,250	4.56	%	575,286	4,433	3.08	%
Non-interest-bearing liabilities	7,174				5,420			
Total liabilities	642,714				580,706			
Equity	57,946				49,047			
Total liabilities and equity	\$ 700,660				\$ 629,753			
Net interest income		\$ 4,086				\$ 4,308		
Net interest rate spread			2.26	%			2.63	%
Net interest margin			2.46	%			2.81	%
Ratio of interest-earning assets to interest-bearing liabilities			104.53	%			106.48	%

Edgar Filing: PACIFIC PREMIER BANCORP INC - Form 10-Q

	Nine Months Ended September 30, 2006			Average Annualized Yield/Cost	Nine Months Ended September 30, 2005			Average Annualized Yield/Cost
	Average Balance (dollars in thousands)	Interest			Average Balance	Interest		
<b>Assets</b>								
Interest-earning assets:								
Cash and cash equivalents	\$ 620	\$ 101	21.72	%	\$ 541	\$ 36	8.87	%
Federal funds sold	1,108	39	4.68	%	328	7	2.91	%
Investment securities	50,283	1,801	4.78	%	46,961	1,378	3.91	%
Loans receivable	608,574	30,504	6.68	%	529,947	22,585	5.68	%
Total interest-earning assets	660,585	32,445	6.55	%	577,777	24,006	5.54	%
Non-interest-earning assets	30,001				15,765			
Total assets	\$ 690,586				\$ 593,542			
<b>Liabilities and Equity</b>								
Interest-bearing liabilities:								
Transaction accounts	\$ 90,301	\$ 1,191	1.76	%	\$ 78,937	\$ 844	1.43	%
Retail certificates of deposit	191,620	6,001	4.18	%	171,223	3,859	3.01	%
Wholesale/brokered certificates of deposit	39,002	1,296	4.43	%	46,270	1,033	2.98	%
Total interest-bearing deposits	320,923	8,488	3.53	%	296,430	5,736	2.58	%
Borrowings	298,556	10,429	4.66	%	235,532	5,138	2.91	%
Subordinated debentures	10,310	592	7.66	%	10,310	446	5.77	%
Total borrowings	308,866	11,021	4.76	%	245,842	5,584	3.03	%
Total interest-bearing liabilities	629,789	19,509	4.13	%	542,272	11,320	2.78	%
Non-interest-bearing liabilities	6,691				4,522			
Total liabilities	636,480				546,794			
Equity	54,106				46,748			
Total liabilities and equity	\$ 690,586				\$ 593,542			
Net interest income		\$ 12,936				\$ 12,686		
Net interest rate spread			2.42	%			2.76	%
Net interest margin			2.61	%			2.93	%
Ratio of interest-earning assets to interest-bearing liabilities			104.89	%			106.55	%

The following table sets forth the effects of changing rates and volumes (changes in the average balances) on the Company's net interest income. Information is provided with respect to (i) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume); (ii) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate); and (iii) the net change.

	Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005 Increase (decrease) due to			Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005 Increase (decrease) due to		
	Rate (in thousands)	Volume	Net	Rate	Volume	Net
<b>Interest-earning assets:</b>						
Cash and cash equivalents	\$ (56 )	\$ 62	\$ 6	\$ 6	\$ 59	\$ 65
Federal funds sold	12	2	14	26	6	32
Investment securities	30	117	147	103	320	423
Loans receivable, net(1)	751	1,677	2,428	3,621	4,298	7,919
Total interest-earning assets	737	1,858	2,595	3,756	4,683	8,439
<b>Interest-bearing liabilities:</b>						
Transaction accounts	\$ 53	\$ 69	\$ 122	\$ 132	\$ 215	\$ 347
Retail certificates of deposit	172	611	783	502	1,640	2,142
Wholesale/brokered certificates of deposit	(670 )	630	(40 )	(263 )	526	263
Borrowings	419	1,484	1,903	1,630	3,661	5,291
Subordinated debentures		49	49		146	146
Total interest-bearing liabilities	(26 )	2,843	2,817	2,001	6,188	8,189
Change in net interest income	\$ 763	\$ (985 )	\$ (222 )	\$ 1,755	\$ (1,505 )	\$ 250

### **Provision for Loan Losses**

The provision for loan losses was zero and \$104,000 for the three and nine months ended September 30, 2006, respectively, compared to \$56,000 and \$292,000 for the same periods in 2005. For the three months ended September 30, 2006, the provision decreased due to a decrease in loans held for investment of \$10.6 million compared to an increase of \$20.1 million for the same period in 2005. This decrease in loans was primarily due to higher loan sales of \$65.2 million in the third quarter of 2006 compared to \$21.5 million for the same period in 2005. The decrease in the provision for the nine months ended September 30, 2006 compared to the same period in 2005 is primarily due to a decrease in loans held for investment during the nine month period ended September 30, 2006 of \$9.2 million compared to an increase of \$102.4 million during the same period in 2005. Net charge-offs/(recoveries) for the third quarter of 2006 were (\$116,000) compared to (\$65,000) for the same period in 2005.

For the nine months ended September 30, 2006 and 2005, net charge-offs/(recoveries) were \$71,000 and \$18,000, respectively. The Bank's Loss Mitigation Department continues collection efforts on loans previously written-down and/or charged-off to maximize potential recoveries. See Allowance for Loan Losses.

### **Noninterest Income**

Noninterest income was \$2.2 million and \$4.4 million for the three and nine months ended September 30, 2006, respectively, compared to \$1.1 million and \$3.0 million, respectively, for the same periods ended September 30, 2005. The increases in noninterest income for the three and nine month periods are primarily due to increases in gains from loan sales of \$1.2 million and \$2.0 million, respectively, compared to the same periods in 2005. The increase in gains from loan sales for the nine months ended September 30, 2006 compared to the same period in 2005 was partially offset by the sale of charged-off loans associated with the Participation Contract in the first nine months of 2005 that generated a gain of \$716,000.

### **Noninterest Expense**

Noninterest expenses were \$3.9 million and \$11.3 million for the three and nine months ended September 30, 2006, respectively, compared to \$3.1 million and \$8.8 million for the same periods ended September 30, 2005. The increase in noninterest expense was the result of increases in compensation and benefits, premises and occupancy expense, and marketing costs of \$475,000, \$189,000, and \$150,000 for the three months ended September 30, 2006 over the prior period, respectively, and \$1.3 million, \$649,000, and \$389,000 for the nine months ended September 30, 2006 over the prior period, respectively. These increases are reflective of the Bank's investments in its strategic expansion through de novo branching and the addition of experienced business bankers to staff the new locations. A large portion of the increases in compensation and benefits, \$565,000, and premises and occupancy expense, \$285,000, during the nine months ended September 30, 2006 compared to the same period in the prior year, is associated with the Bank's new depository branches in the cities of Los Alamitos and Newport Beach (scheduled to open in the first quarter of 2007), and the SBA loan production office in Pasadena, which opened in January 2006. The Bank expects to continue to add additional staffing in 2006 in connection with its on-going expansion. The number of employees at the Bank grew from 89 at September 30, 2005 to 105 at September 30, 2006.

### **Benefit/Provision for Income Taxes**

The Company had a tax provision (benefit) for the three and nine months ended September 30, 2006 of \$845,000 and (\$302,000), respectively. For the same periods a year earlier, the Company's tax provision was \$398,000 and \$1.1 million, respectively. The Company benefited from a reduction in its valuation allowance for deferred taxes for the nine months ended September 30, 2006 and for the three and nine months ended September 30, 2005 of \$2.4 million, \$500,000, and \$1.5 million, respectively. The Company's valuation allowance for deferred taxes was zero at September 30, 2006.

### **LIQUIDITY**

The Bank's primary sources of funds are principal and interest payments on loans, deposits and borrowings. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. However, the Bank has continued to maintain the required minimum levels of liquid assets as defined by OTS regulations. This requirement, which may be varied at the direction of the OTS depending upon economic conditions and deposit flows, is based upon a percentage of deposits and short-term borrowings. The Bank's average liquidity ratios were 6.31% and 4.97% for the quarters ended September 30, 2006 and 2005, respectively.

The Company's cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities and financing activities. Cash flows provided by operating activities were \$4.4 million for the nine months ended September 30, 2006, compared to net cash provided by operating activities of \$6.4 million for the nine months ended September 30, 2005. Net cash used in investing activities was \$3.2 million for the nine months ended September 30, 2006, compared to \$108.0 million for the nine months ended September 30, 2005. Net cash used in financing activities was \$1.8 million for the nine months ended September 30, 2006, compared to net cash provided by financing activities of \$111.6 million for the nine months ended September 30, 2005.

The Company's most liquid assets are unrestricted cash and short-term investments. The levels of these assets are dependent on the Company's operating, lending and investing activities during any given period. At September 30, 2006, cash and cash equivalents totaled \$33.4 million and the market-value of the Bank's short-term investments totaled \$26.8 million. The Company has other sources of liquidity, credit facilities with Salomon Brothers and Pershing, if a need for additional funds arises, including the utilization of FHLB advances, Federal Funds lines, and loan sales.

As of September 30, 2006, the Bank had outstanding commitments for loan originations and unused lines of credit of \$2.6 million and \$14.2 million, respectively, compared to \$2.2 million and \$5.5 million, respectively, at December 31, 2005. There were no material changes to the Company's commitments or contingent liabilities as of September 30, 2006 compared to the period ended December 31, 2005 as discussed in the notes to the audited consolidated financial statements of Pacific Premier Bancorp, Inc., for the year ended December 31, 2005 included in the Company's Annual Report on Form 10-K.

## **CAPITAL RESOURCES**

The OTS capital regulations require savings institutions to meet three minimum capital requirements: a 1.5% tangible capital ratio, a 3.0% Tier 1 leverage capital ratio and an 8.0% risk-based capital ratio. The Tier 1 leverage capital requirement has been effectively increased to 4.0% because the prompt corrective action legislation provides that institutions with less than 4.0% Tier 1 leverage capital will be deemed undercapitalized. In addition, the OTS, under the prompt corrective action regulation, can impose various constraints on institutions depending on their level of capitalization ranging from well capitalized to critically undercapitalized.

The table in Item 1. Financial Statements Note 3 Regulatory Matters reflects the Bank's capital ratios based on the end of the period covered by this report and the related OTS requirements to be adequately capitalized and well capitalized. As of September 30, 2006, the Bank met the capital ratios required to be considered well capitalized.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

Management believes that there have been no material changes in the Company's quantitative and qualitative information about market risk since December 31, 2005. For a complete discussion of the Company's quantitative and qualitative market risk, see Item 7A. Quantitative and Qualitative Disclosure About Market Risk in the Company's 2005 Annual Report on Form 10-K.

### **Item 4. Controls and Procedures**

#### **(a) Evaluation of Disclosure Controls and Procedures**

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(c) and 15-d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report (the Evaluation Date) have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report was being prepared. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to its Management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### **(b) Changes in Internal Controls**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company is not involved in any legal proceedings other than those occurring in the ordinary course of business, except for the *James Baker v. Century Financial, et al* which was discussed in the Company's December 31, 2005 Form 10-K. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

### **Item 1A. Risk Factors**

There were no material changes to the Risk Factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.



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

During the third quarter of 2006, the Company repurchased 2,000 shares in open market activities. All 2,000 shares were redistributed within the Company as Restricted Shares. The table below reflects the buyback activity for the quarter.

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	Total amount purchased as part of the publicly announced program	Maximum number of shares that may yet be purchased under the program
Jul-06		\$		\$	
Aug-06					
Sep-06	2,000	11.46	2,000	22,925	25,200
Total/Average	2,000	\$ 11.46		\$ 22,925	25,200

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**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.,**

November 14, 2006  
Date

By:

/s/ Steven R. Gardner  
Steven R. Gardner  
President and Chief Executive Officer  
(principal executive officer)

November 14, 2006  
Date

/s/ John Shindler  
John Shindler  
Executive Vice President and Chief Financial Officer  
(principal financial and accounting officer)

Index to Exhibits

Exhibit

No.	Description of Exhibit
10.1	Form of Pacific Premier Bank Director Deferred Compensation Agreement *(1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

---

\* Management contract or compensatory plan or arrangement.

(1) Incorporated by reference from the Company's Form 8-K filed with the SEC on September 25, 2006.

25

---