

FIRST PACTRUST BANCORP INC

Form 10-Q

May 06, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2008

**FIRST PACTRUST BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**000-49806**

(Commission File Number)

**Maryland**

(State of incorporation)

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**04-3639825**

**(IRS Employer Identification No.)**

**610 Bay Boulevard, Chula Vista, California**

**(Address of Principal Executive Offices)**

**91910**

**(ZIP Code)**

**(619) 691-1519**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the Registrant is a large accelerated filer; an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12B-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

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

As of May 6, 2008 the Registrant had 4,320,514 outstanding shares of common stock.

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**FIRST PACTRUST BANCORP, INC.**

Form 10-Q Quarterly Report

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

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

**Table of Contents****ITEM 1 FINANCIAL STATEMENTS****First PacTrust Bancorp, Inc.****Consolidated Statements of Financial Condition****(In thousands of dollars except share data)****(Unaudited)**

|   | March 31,<br>2008 | December 31,<br>2007 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Cash and due from banks   | \$ 5,782          | \$ 6,551             |
| Federal funds sold  | 2,405             | 8,635                |
| Interest-bearing deposits   | 7,835             | 6,610                |
| Total cash and cash equivalents   | 16,022            | 21,796               |
| Interest-bearing deposit in other financial institution   | 992               | 992                  |
| Securities available-for-sale   | 5                 | 4,367                |
| Federal Home Loan Bank stock, at cost   | 6,935             | 6,842                |
| Loans receivable, net of allowance of \$5,914 at March 31, 2008 and \$6,240 at December 31, 2007                  | 742,519           | 710,095              |
| Accrued interest receivable   | 3,764             | 3,853                |
| Real estate owned, net  | 436               |                      |
| Premises and equipment, net   | 4,657             | 4,755                |
| Bank owned life insurance investment  | 17,213            | 17,042               |
| Other assets  | 4,987             | 4,978                |
| Total assets  | \$ 797,530        | \$ 774,720           |
| <b>LIABILITIES AND EQUITY</b>   |                   |                      |
| <b>LIABILITIES</b>  |                   |                      |
| Deposits  |                   |                      |
| Noninterest-bearing   | \$ 16,324         | \$ 17,873            |
| Interest-bearing  | 559,742           | 556,278              |
| Total deposits  | 576,066           | 574,151              |
| Advances from Federal Home Loan Bank  | 133,300           | 111,700              |
| Accrued expenses and other liabilities  | 4,325             | 4,794                |
| Total liabilities   | 713,691           | 690,645              |
| <b>SHAREHOLDERS EQUITY</b>  |                   |                      |
| Preferred stock, \$.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding         |                   |                      |
| Common stock, \$.01 par value per share, 20,000,000 shares authorized; 5,445,000 shares issued                    | 54                | 54                   |
| Additional paid-in capital  | 67,716            | 67,537               |
| Retained earnings   | 42,587            | 42,192               |
| Treasury stock, at cost (March 31, 2008 - 1,102,762 shares, December 31, 2007 - 1,046,262 shares)                 | (24,614)          | (23,685)             |
| Unearned employee stock ownership plan shares (March 31, 2008 - 158,700 shares, December 31, 2007 169,280 shares) | (1,904)           | (2,031)              |
| Accumulated other comprehensive income  |                   | 8                    |
| Total shareholders equity   | 83,839            | 84,075               |

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|  |            |            |
|--|------------|------------|
| Total liabilities and shareholders' equity | \$ 797,530 | \$ 774,720 |
|--|------------|------------|

See accompanying notes to consolidated financial statements.

**Table of Contents****First PacTrust Bancorp, Inc.****Consolidated Statements of Income****(In thousands of dollars except per share data)****(Unaudited)**

|   | <b>Three months ended<br/>March 31,</b> |               |
|---|---|---------------|
|   | <b>2008</b>                             | <b>2007</b>   |
| Interest and dividend income                                    |   |               |
| Loans, including fees   | \$ 11,129                               | \$ 11,608     |
| Securities  | 75                                      | 157           |
| Dividends and other interest-earning assets                     | 135                                     | 173           |
| <b>Total interest income</b>                                    | <b>11,339</b>                           | <b>11,938</b> |
| Interest expense  |   |               |
| Deposits  | 5,165                                   | 5,893         |
| Federal Home Loan Bank advances                                 | 1,049                                   | 1,556         |
| <b>Total interest expense</b>                                   | <b>6,214</b>                            | <b>7,449</b>  |
| Net interest income   | 5,125                                   | 4,489         |
| Provision/(reduction) for loan losses                           | 405                                     | (16)          |
| Net interest income after provision/(reduction) for loan losses | 4,720                                   | 4,505         |
| Noninterest income  |   |               |
| Customer service fees   | 374                                     | 377           |
| Mortgage loan prepayment penalties                              | 32                                      | 30            |
| Income from bank owned life insurance                           | 171                                     | 169           |
| Other income  | 3                                       | 4             |
| <b>Total noninterest income</b>                                 | <b>580</b>                              | <b>580</b>    |
| Noninterest expense   |   |               |
| Salaries and employee benefits                                  | 1,914                                   | 1,970         |
| Occupancy and equipment   | 446                                     | 453           |
| Advertising   | 86                                      | 100           |
| Professional fees   | 130                                     | 128           |
| Stationary, supplies, and postage                               | 108                                     | 121           |
| Data processing   | 258                                     | 221           |
| ATM costs   | 110                                     | 114           |
| Operating loss on equity investment                             | 89                                      | 86            |
| Other general and administrative                                | 445                                     | 305           |
| <b>Total noninterest expense</b>                                | <b>3,586</b>                            | <b>3,498</b>  |
| Income before income taxes                                      | 1,714                                   | 1,587         |
| Income tax expense  | 548                                     | 549           |
| Net income  | \$ 1,166                                | \$ 1,038      |
| Comprehensive income  | \$ 1,158                                | \$ 1,092      |

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|                    |    |     |        |
|--------------------|----|-----|--------|
| Earnings per share |    |     |        |
| Basic              | \$ | .28 | \$ .25 |
| Diluted            | \$ | .28 | \$ .25 |

See accompanying notes to consolidated financial statements.



**Table of Contents****First PacTrust Bancorp, Inc.****Consolidated Statements of Cash Flows****(In thousands of dollars)****(Unaudited)**

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                             | <b>2007</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |   |             |
| Net income   | \$ 1,166                                | \$ 1,038    |
| Adjustments to reconcile net income to net cash provided by operating activities |   |             |
| Net amortization on securities   | (53)                                    | (5)         |
| Provision for loan losses  | 405                                     | (16)        |
| Depreciation and amortization  | 109                                     | 103         |
| Federal Home Loan Bank stock dividends   | (93)                                    | (144)       |
| Bank owned life insurance income   | (171)                                   | (169)       |
| Employee stock ownership plan compensation expense                               | 181                                     | 289         |
| Stock award compensation expense   | 177                                     | 172         |
| Stock option compensation expense  | 79                                      | 78          |
| Operating loss on equity investment  | 89                                      | 86          |
| Deferred income tax (benefit)/expense  | (78)                                    | (288)       |
| Interest capitalized on negative amortizing loans                                | (276)                                   | (493)       |
| Net change in:   |   |             |
| Deferred loan fees   | (216)                                   | 84          |
| Accrued interest receivable  | 14                                      | 383         |
| Other assets   | 69                                      | 314         |
| Accrued interest payable and other liabilities                                   | (540)                                   | (480)       |
| Net cash provided by (used in) operating activities                              | 862                                     | 952         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |   |             |
| Maturities/calls of available-for-sale securities                                | 4,476                                   |             |
| Loan originations and principal collections, net                                 | (33,101)                                | 24,694      |
| Redemption of Federal Home Loan Bank stock                                       |   | 1,259       |
| Proceeds from sale of other real estate owned                                    | 328                                     |             |
| Additions to premises and equipment  | (11)                                    | (86)        |
| Net cash provided by (used in) investing activities                              | (28,308)                                | 25,867      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |   |             |
| Net increase in deposits   | 1,915                                   | 8,354       |
| Net change in Federal Home Loan Bank open line                                   | (23,400)                                | (22,000)    |
| Repayments of Federal Home Loan Bank advances                                    | (5,000)                                 | (8,000)     |
| Proceeds from Federal Home Loan Bank advances                                    | 50,000                                  |             |
| Purchase of treasury stock   | (1,060)                                 |             |
| Exercise of stock options  |   | 214         |
| Dividends paid on common stock   | (783)                                   | (758)       |
| Net cash provided by (used in) financing activities                              | 21,672                                  | (22,190)    |
| Net change in cash and cash equivalents  | (5,774)                                 | 4,629       |
| Cash and cash equivalents at beginning of period                                 | 21,796                                  | 13,995      |

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|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at end of period                   | \$ 16,022 | \$ 18,624 |
| Supplemental disclosures of cash flow information            |           |           |
| Adjustment to adopt FIN 48                                   | \$        | \$ 328    |
| Transfers of loans to other real estate owned                |           | 764       |
| See accompanying notes to consolidated financial statements. |           |           |

**Table of Contents****First PacTrust Bancorp, Inc.****Consolidated Statements of Equity**

(In thousands of dollars, except share and per share data)

(Unaudited)

|  | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Unearned<br>ESOP | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total     |
|--|-----------------|----------------------------------|----------------------|-------------------|------------------|---|-----------|
| Balance at January 1, 2007   | \$ 54           | \$ 65,940                        | \$ 41,993            | \$ (23,515)       | \$ (2,539)       | \$ (192)  | \$ 81,741 |
| Adjustment to adopt FIN 48   |                 |                                  | 328                  |                   |                  |   | 328       |
| Comprehensive income:  |                 |                                  |                      |                   |                  |   |           |
| Net income   |                 |                                  | 2,961                |                   |                  |   | 2,961     |
| Change in net unrealized gain (losses) on securities available-for-sale, net of reclassification and tax effects |                 |                                  |                      |                   |                  | 200   | 200       |
| Total comprehensive income   |                 |                                  |                      |                   |                  |   | 3,161     |
| ESOP forfeitures used to reduce ESOP contribution  |                 | (41)                             |                      |                   |                  |   | (41)      |
| Options exercised  |                 | (19)                             |                      | 233               |                  |   | 214       |
| Stock option compensation expense  |                 | 316                              |                      |                   |                  |   | 316       |
| Stock awards earned  |                 | 686                              |                      |                   |                  |   | 686       |
| Purchase of 17,320 shares of treasury stock  |                 |                                  |                      | (403)             |                  |   | (403)     |
| Employee stock ownership plan shares earned  |                 | 536                              |                      |                   | 508              |   | 1,044     |
| Tax benefits of RRP shares vesting   |                 | 119                              |                      |                   |                  |   | 119       |
| Dividends declared (\$.74 per share)   |                 |                                  | (3,090)              |                   |                  |   | (3,090)   |
| Balance at December 31, 2007   | \$ 54           | \$ 67,537                        | \$ 42,192            | \$ (23,685)       | \$ (2,031)       | \$ 8  | \$ 84,075 |
| Comprehensive income:  |                 |                                  |                      |                   |                  |   |           |
| Net income   |                 |                                  | 1,166                |                   |                  |   | 1,166     |
| Change in net unrealized gain (losses) on securities available-for-sale, net of reclassification and tax effects |                 |                                  |                      |                   |                  | (8)   | (8)       |
| Total comprehensive income   |                 |                                  |                      |                   |                  |   | 1,158     |
| Stock option compensation expense  |                 | 79                               |                      |                   |                  |   | 79        |
| Stock awards earned  |                 | 177                              |                      |                   |                  |   | 177       |
| Issuance of stock awards   |                 | (131)                            |                      | 131               |                  |   |           |
| Purchase of 62,300 shares of treasury stock  |                 |                                  |                      | (1,060)           |                  |   | (1,060)   |
| Employee stock ownership plan shares earned  |                 | 54                               |                      |                   | 127              |   | 181       |
| Dividends declared (\$.19 per share)   |                 |                                  | (771)                |                   |                  |   | (771)     |
| Balance at March 31, 2008  | \$ 54           | \$ 67,716                        | \$ 42,587            | \$ (24,614)       | \$ (1,904)       | \$  | \$ 83,839 |

See accompanying notes to consolidated financial statements.



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FIRST PACTRUST BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

(amounts in thousands of dollars)

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of First PacTrust Bancorp, Inc. (the Company) and its wholly owned subsidiary Pacific Trust Bank (the Bank) as of March 31, 2008 and December 31, 2007 and for the three month periods ended March 31, 2008 and March 31, 2007. Significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission. The December 31, 2007 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission, but does not include all of the disclosures required by U.S. generally accepted accounting principles.

Interim statements are subject to possible adjustment in connection with the annual audit of the Company for the year ending December 31, 2008. In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented.

The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

Note 2 Summary of Significant Accounting Policies

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

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

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

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

As a result of adoption, the Company recognized an increase to deferred tax assets of \$328 thousand for uncertain tax positions. This amount was accounted for by increasing the beginning balance of retained earnings on the balance sheet. After recording the cumulative effect at the beginning of 2007, the Company had approximately \$109 thousand of total gross unrecognized tax benefits at March 31, 2008, which represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

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The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities for years before 2004 and for all state income taxes through 2002. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

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The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company had \$0 accrued for interest and penalties at March 31, 2008.

*New Accounting Pronouncements:* In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008, the effective date of the standard.

**Note 3 Employee Stock Ownership Plan**

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

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

**Note 4 Employee Stock Compensation****Stock Options**

A Stock Option Plan ( SOP ) provides for issue of options to directors, officers, and employees. The Company adopted the SOP in April of 2003 under the terms of which up to 529,000 shares of the Company's common stock may be awarded. The options become exercisable in equal installments over a five-year period beginning on their one year anniversary after the date of grant. The options expire ten years from the date of grant.

The Black-Scholes option pricing valuation model was used in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. The following assumptions were used for those options that were granted during 2008:

|   |            |
|---|------------|
| Date of grant (2008)                    | January 22 |
| Options granted                         | 13,000     |
| Estimated fair value of options granted | \$ 1.89    |
| Assumptions used:                       |            |
| Risk-free interest rate                 | 2.64%      |
| Expected option life                    | 5 years    |
| Expected stock price volatility         | 11.14%     |
| Expected dividend yield                 | 4.24%      |





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The following table represents stock option activity for the three months ended March 31, 2008:

|                                      | Shares  | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------|---------|---------------------------------------|---|---------------------------------|
| Outstanding at beginning of period   | 471,396 | \$ 18.36                              |   |                                 |
| Granted                              | 13,000  | 17.00                                 |   |                                 |
| Exercised                            |         |                                       |   |                                 |
| Forfeited or expired                 | (1,000) | 17.19                                 |   |                                 |
| Outstanding at end of period         | 483,396 | \$ 18.33                              | 5.51  | \$                              |
| Options exercisable at end of period | 345,486 | \$ 18.08                              | 5.31  | \$                              |

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. SFAS 123(R) requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 5% for senior management and the board of directors and 45% for all other employees. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. The Company recorded stock compensation expense of \$79 thousand and \$78 thousand as salary and employee benefits expense during the three months ended March 31, 2008 and March 31, 2007 respectively. As of March 31, 2008, there was a total of \$159 thousand of total unrecognized compensation costs related to 137,910 nonvested options in the plan.

Options outstanding at March 31, 2008 were as follows:

| Range of Exercise Prices | Number  | Outstanding   |  | Exercisable |  |
|--------------------------|---------|---|--|-------------|--|
|                          |         | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Weighted<br>Average<br>Exercise<br>Price | Number      | Weighted<br>Average<br>Exercise<br>Price |
| \$17 - \$22              | 459,396 | 5.42  | 17.88                                    | 333,086     | 17.76                                    |
| \$22 - \$25              |         |   |  |             |  |
| \$25 - \$29              | 24,000  | 7.18  | 26.88                                    | 12,400      | 26.62                                    |
| Outstanding at year end  | 483,396 |   |  | 345,486     |  |

**Recognition and Retention Plan**

A Recognition and Retention Plan ( RRP ) provides for the issuance of shares to directors, officers, and employees. Pursuant to its 2003 stock-based incentive plan, the Company awarded 214,800 shares of RRP awards since inception of the plan. There were 5,800 shares granted during the three months ended March 31, 2008. There were no shares forfeited in 2007 or during the first quarter of 2008. Compensation expense for RRP awards totaled approximately \$177 thousand for the three months ended March 31, 2008 and \$172 thousand for the three months ended March 31, 2007. As of March 31, 2008, there was a total of \$338 thousand unrecognized compensation cost related to 55,320 nonvested RRP awards granted under the plan.

As described in Note 13 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, the plan allows for the issuance of RRP awards that may not be sold or otherwise transferred until the restrictions have lapsed. The unearned stock-based compensation related to these awards is being amortized to compensation expense over the vesting period (generally one

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to five years). The share based expense for these awards was determined based on the market price of our stock at the date of grant applied to the total numbers of shares that were anticipated to fully vest and then amortized over the vesting period.

SFAS 123(R) requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 6%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

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## Note 5 Earnings Per Share

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

|  | Three Months<br>Ended<br>March 31, 2008 | Three Months<br>Ended<br>March 31, 2007 |
|--|---|---|
| <b>Basic</b>   |   |   |
| Net income   | \$ 1,166                                | \$ 1,038                                |
| Weighted average common shares outstanding                                     | 4,191,734                               | 4,141,252                               |
| Basic earnings per share   | \$ .28                                  | \$ .25                                  |
| <b>Diluted</b>   |   |   |
| Net income   | \$ 1,166                                | \$ 1,038                                |
| Weighted average common shares outstanding for basic earnings per common share | 4,191,734                               | 4,141,252                               |
| Add: Dilutive effects of stock options   |   | 78,826                                  |
| Add: Dilutive effects of stock awards  | 1                                       | 11,170                                  |
| Average shares and dilutive potential common shares                            | 4,191,735                               | 4,231,248                               |
| Diluted earnings per common share  | \$ .28                                  | \$ .25                                  |

Stock options for 470,396 shares and 25,000 shares of common stock were not considered in computing diluted earnings per common share for the period ending March 31, 2008 and 2007 because they were anti-dilutive.

## Note 6 Fair Value

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing and asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used to in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$17.4 million. Of the \$17.4 million, \$10.6 had an allowance allocation of \$1.8 million. During the current quarter an additional provision for loan losses of \$176 thousand was made for those loans (Level 3 inputs).

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Real estate owned of \$436 thousand was based on the fair value of the collateral (Level 3 inputs).

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

The following discussion compares the financial condition of First PacTrust Bancorp, Inc. (the Company), at March 31, 2008 to its financial condition at December 31, 2007 and the results of operations for the three month period ended March 31, 2008 to the same period in 2007. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

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

**Comparison of Financial Condition at March 31, 2008 and December 31, 2007**

The Company's total assets increased 2.9%, to \$797.5 million at March 31, 2008 from \$774.7 million at December 31, 2007. The increase primarily reflected the growth in the balance of loans receivable in the amount of \$32.4 million.

Two agency securities totaling \$4.3 million were called at par during the quarter which decreased the balance of securities classified as available-for-sale to \$5 thousand at March 31, 2008 from \$4.4 million at December 31, 2007.

Net loans receivable increased by \$32.4 million, or 4.6%, to \$742.5 million at March 31, 2008 from \$710.1 million at December 31, 2007. The increase in loans resulted primarily from loan originations exceeding repayments during the period. Loan production was \$74.0 million for the quarter and was primarily attributable to growth of one-to four- family loans and the Company's Green account loan product. Despite a large increase in loan production during the current quarter, the Company does not expect this trend to continue throughout the year.

At March 31, 2008, the Company had a total of \$322.9 million in interest only mortgage loans and \$45.0 million in loans with the potential for negative amortization. At December 31, 2007, the Company had a total of \$294.3 million in interest only mortgage loans and \$48.2 million in loans with the potential for negative amortization. The Company no longer originates loans with the potential for negative amortization. The Company continues to originate interest only loans and growth in those loans is primarily attributable to growth in the Company's Green account loan product, which by its nature, is an interest only product. Negatively amortizing and interest only loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization which could result in a larger amount outstanding. However, management believes the risk is mitigated through the Company's loan terms and underwriting standards.

At March 31, 2008, real estate acquired in settlement of loans totaled \$436 thousand which consisted of one, one-to four- family property currently held for sale.

Total deposits increased by \$1.9 million, or 0.3%, to \$576.1 million at March 31, 2008 from \$574.2 million at December 31, 2007. Deposits increased as a result of marketing efforts and newly originated business deposits and primarily reflected growth in savings and NOW accounts. Savings accounts increased \$12.3 million, or 15.3%, to \$93.0 million, chiefly in the Company's high yield savings account due to competitive rate terms. Now accounts increased \$2.9 million or 7.0% to \$44.0 million. Money market accounts decreased \$9.4 million or 7.2% to \$120.1 million and certificate of deposit accounts decreased \$2.4 million, or 0.8%, to \$302.7 million due to customers shifting their funds into higher yielding products of the Company and moving to substantially higher rates paid by competitors. Brokered certificates of deposit increased \$11.5 million to \$15.3 million at March 31, 2008.

Due to the increase in loan production, the Company's Federal Home Loan Bank advances increased \$21.6 million to \$133.3 million.

Equity decreased \$236 thousand to \$83.8 million at March 31, 2008 from \$84.1 million at December 31, 2007. The net decrease resulted primarily from the purchase of outstanding shares of stock in the amount of \$1.1 million as well as a result of the payment of dividends in the amount of \$771 thousand. Equity increased primarily as a result of net income of \$1.2 million, ESOP shares earned of \$181 thousand and stock awards earned of \$177 thousand.

**Table of Contents****Comparison of Operating Results for the Three Months Ended March 31, 2008 and 2007**

**General.** Net income for the three months ended March 31, 2008 was \$1.2 million, reflecting a \$128,000, or 12.3% increase over last year's quarter. The increase resulted from the fluctuations described below.

**Interest income.** Interest income decreased by \$599,000, or 5.0%, to \$11.3 million for the three months ended March 31, 2008 from \$11.9 million for the three months ended March 31, 2007. The decrease in interest income was due to a reversal of loan interest income in the amount of \$362 thousand related to loans on non-accrual status, an \$8.0 million decrease in the average balance of loans receivable from \$730.7 million for the three months ended March 31, 2007 to \$722.7 million for the three months ended March 31, 2008, and a 19 basis point decrease in the average yield on loans receivable to 6.16% for the three months ended March 31, 2008 reflecting the overall decrease in interest rates compared to the prior period.

The Company's loans with the potential of negative amortization totaled \$45.0 million for the three months ended March 31, 2008. The Company is no longer offering loans with the potential for negative amortization. Capitalized interest recognized in earnings that resulted from negative amortization within the portfolio totaled \$276 thousand or 2.5% of loan interest income for the three months ended March 31, 2008 and \$493 thousand or 4.3% of loan interest income for the three months ended March 31, 2007. The Company has mitigated the risks associated with the negatively amortizing loans by using conservative underwriting standards.

Interest income on securities decreased \$82 thousand, or 52.2%, to \$75 thousand for the three months ended March 31, 2008 from \$157 thousand for the three months ended March 31, 2007 primarily due to a \$12.1 million decrease in the average balance of securities available for sale from \$14.3 million for the three months ended March 31, 2007 to \$2.1 million for the three months ended March 31, 2008.

Interest income on other interest-earning assets decreased \$38 thousand to \$135 thousand for the three months ended March 31, 2008 from \$173 thousand for the three months ended March 31, 2007 primarily due to lower FHLB stock dividends resulting from a decrease in the balances of Federal Home Loan Bank stock.

**Interest Expense.** Interest expense decreased \$1.2 million or 16.6%, to \$6.2 million for the three months ended March 31, 2008. Interest expense on deposits decreased \$728 thousand, or 12.4%, to \$5.2 million for the three months ended March 31, 2008 from \$5.9 million for the same period in 2007. This resulted from a 60 basis point decrease in the Company's cost of funds due to a decrease in short term interest rates as well as a \$322 thousand decrease in the average balance of deposits from \$560.8 million for the three months ended March 31, 2007 to \$560.5 million for the three months ended March 31, 2008. Interest expense on Federal Home Loan Bank advances decreased approximately \$507 thousand, or 32.6%, to \$1.0 million for the three months ended March 31, 2008 from \$1.6 million for the three months ended March 31, 2007 primarily due to a \$20.3 million decrease in the average balance of Federal Home Loan Bank advances as well as a 95 basis point decrease in rates paid on those advances.

**Net Interest Income.** As a result of the combined effect of the factors mentioned above, net interest income before the provision for loan losses increased \$636 thousand, or 14.2%, to \$5.1 million for the three months ended March 31, 2008 from \$4.5 million for the three months ended March 31, 2007. Due to the recent decrease in short term interest rates, the Company's margins have substantially increased with the net interest spread increasing 40 basis points to 2.40%, and the net interest margin increasing 40 basis points to 2.75%.

**Provision for Loan Losses.** Non-performing loans, which are those loans that are 90 days or more delinquent and troubled debt restructured loans, were \$18.4 million at March 31, 2008 compared to \$5 thousand at March 31, 2007. Of the \$18.4 million non-performing loan balance, \$11.7 million is considered to be impaired with an allowance allocation of \$1.8 million. The remaining \$6.7 million non-performing loans are also considered to be impaired. However, an allowance allocation is not warranted at this time. The \$18.4 million non-performing loan balance primarily consists of a \$10.0 million construction loan that was placed on non-accrual status during the second quarter of 2007. An allowance allocation of \$1.6 million was established in 2007. Loans totaling \$1.1 million were restructured during the quarter ended March 31, 2008 and are considered troubled debt restructurings. These loans were previously delinquent and were brought current by way of modification that required guideline exceptions beyond the normal scope. These loans are included in the \$18.4 million non-performing loan balance and have been placed on non-accrual status even though the interest rate following modification was no less than that afforded new borrowers. Once the borrowers perform pursuant to the modified terms for six consecutive months, the loans will be placed back on accrual status and, while still reported as troubled debt restructurings, they will no longer be classified as non-performing assets because the borrower will have demonstrated an ability to perform in accordance with the loan modification. Income will be recognized when received during the six month non-accrual period. At March 31, 2008, real estate acquired in settlement of loans totaled \$436 thousand, based on the fair value of the collateral, and consisted of one single family property currently held for sale.

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A provision for loan losses of \$405 thousand was recorded for the three months ended March 31, 2008 compared to a \$16 thousand net recovery recorded for the three months ended March 31, 2007. The increase during the current quarter was primarily due to the overall increase in loan balances as well as specific loss allocations of \$165 thousand for two impaired loans. Net loan charge-offs totaled \$731 thousand for the current quarter compared to \$2 thousand in the prior year's quarter. The current quarter net charge-offs consisted primarily of one commercial non-real estate loan totaling \$653 thousand which was the only loan of this type in the Company's portfolio. The Company established an allowance allocation for this loan during 2007. The allowance for loan losses as a percentage of loans outstanding was 0.79% at March 31, 2008 compared to 0.65% at March 31, 2007. The decrease in the total allowance to non-performing loans ratio is the result of the increased non-performing loan balances. However, management believes that at this time the current allowance for loan losses covers probable incurred loan losses.

Provisions for loan losses are charged to operations at a level required to reflect probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information, declining property values and prevailing economic conditions. In this regard, approximately 95% of our loans are to individuals and businesses in southern California. California, in general, and more specifically, San Diego and Riverside counties, are considered to be amongst the most severely distressed real estate markets in the country. Large groups of smaller balance homogeneous loans, such as residential real estate, small commercial real estate, and home equity and consumer loans, are evaluated in the aggregate using historical loss factors and peer group data adjusted for current economic conditions. Large balance and/or more complex loans, such as multi-family, construction, and commercial real estate loans, and classified loans, are evaluated individually for impairment.

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

Management assesses the allowance for loan losses quarterly. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of March 31, 2008 was maintained at a level that represented management's best estimate of incurred losses in the loan portfolio to the extent they were both probable and reasonably estimable.

**Noninterest Income.** Noninterest income of \$580 thousand for the three months ended March 31, 2008 remained consistent with the same period from the prior year.

**Noninterest Expense.** Noninterest expense increased \$88 thousand, or 2.5%, to \$3.6 million for the three months ended March 31, 2008. This net increase was primarily the result of a \$140 thousand increase due to increased FDIC deposit insurance premiums assessed for all FDIC insured financial institutions as well as increased foreclosure expenses in the amount of \$46 thousand and a \$37 thousand increase in data processing expenses. Additionally, salaries and employee benefits decreased \$56 thousand.

Data processing cost increased \$37 thousand, or 16.7% to \$258 thousand for the three months ended March 31, 2008 from \$221 thousand for the three months ended March 31, 2007 due to increased software maintenance expenses and fees related to increased processing volume.

Salaries and employee benefits represented 53.4% and 56.3% of total noninterest expense for the three months ended March 31, 2008 and March 31, 2007, respectively. Total salaries and employee benefits decreased \$56 thousand, or 2.8%, to \$1.9 million for the three months ended March 31, 2008 from \$2.0 million for the same period in 2007 primarily due to lower ESOP and stock compensation expenses resulting from a decrease in the fair market value of the Company's stock during the period.

**Income Tax Expense.** Income tax expense increased of \$548 thousand remained consistent with the same period from the prior year. The effective tax rate was 32.0% and 34.6% for periods ending March 31, 2008 and 2007, respectively.

### Liquidity and Commitments

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

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

Liquidity management is both a daily and long-term function of business management. Any excess liquidity would be invested in federal funds or authorized investments such as mortgage-backed or U.S. Agency securities. On a longer-term basis, the Bank maintains a strategy of investing in various lending products. The Bank uses its sources of funds primarily to meet its ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments, and to maintain its portfolio of mortgage-backed securities and investment securities. At March 31, 2008, the total approved loan origination commitments outstanding amounted to \$7.4 million. At the same date, unused lines of credit were \$67.1 million and outstanding letters of credit totaled \$671 thousand. There were no securities scheduled to mature in one year or less at March 31, 2008. Certificates of deposit scheduled to mature in one year or less at March 31, 2008, totaled \$268.8 million. Based on the competitive rates and on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank. In addition, the Bank had the ability at March 31, 2008 to borrow an additional \$137.7 million from the Federal Home Loan Bank of San Francisco as well as \$10.0 million from Pacific Coast Bankers Bank and \$2.0 million from Bank of the West as funding sources to meet commitments and for liquidity purposes. The Bank has Federal Home Loan Bank advances of \$63.3 million maturing within the next 12 months. The Bank intends to replace these advances with new borrowings from the Federal Home Loan Bank or deposits depending on market conditions. To management's knowledge, there are no current events that will result or are reasonably likely to result in a material increase or decrease in our liquidity.

## **Capital**

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain a well capitalized institution in accordance with regulatory standards. Total equity was \$77.9 million at March 31, 2008, or 9.8% of total assets on that date. As of March 31, 2008, the Bank exceeded all capital requirements of the Office of Thrift Supervision. The Bank's regulatory capital ratios at March 31, 2008 were as follows: core capital 9.77%; Tier 1 risk-based capital, 13.37%; and total risk-based capital, 14.07%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0%, and 10.0%, respectively.

## **Impact of Inflation**

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

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

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



**Table of Contents****ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Bank's interest rate sensitivity is monitored by management through the use of a model that estimates the change in net portfolio value (NPV) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance-sheet contracts. An NPV Ratio, in any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The Sensitivity Measure is the decline in the NPV Ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The higher an institution's Sensitivity Measure is, the greater its exposure to interest rate risk is considered to be. The Office of Thrift Supervision (OTS) has incorporated an interest rate risk component into its regulatory capital rule. Under the rule, an institution whose Sensitivity Measure exceeds 200 basis points may be required to deduct an interest rate risk component in calculating its total capital for purposes of the risk-based capital requirement. Increases in interest rates would be expected to have a negative impact on the Bank's operating results. As of December 31, 2007, the latest date for which information is available, the Bank's Sensitivity Measure, as measured by the OTS, resulting from a 2% increase in interest rates was a decrease of 100 basis points and would result in a \$9.5 million decrease in the NPV of the Bank. The Sensitivity Measure is less than the threshold at which the Bank could be required to hold additional risk-based capital under OTS regulations.

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

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

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

**Interest Rate Sensitivity of Net Portfolio Value (NPV)**

| Change in Rates | Net Portfolio Value |           |          | NPV as a % of<br>PV of Assets |         |
|-----------------|---------------------|-----------|----------|-------------------------------|---------|
|                 | \$ Amount           | \$ Change | % Change | NPV Ratio                     | Change  |
| + 300 bp        | \$ 81,559           | (16,226)  | (17)%    | 10.54%                        | (174)bp |
| + 200 bp        | 88,335              | (9,450)   | (10)%    | 11.28%                        | (100)bp |
| + 100 bp        | 94,594              | (3,191)   | (3)%     | 11.96%                        | (32)bp  |
| 0 bp            | 97,785              |           |          | 12.28%                        | 0bp     |
| - 100 bp        | 98,851              | 1,066     | 1%       | 12.36%                        | 9bp     |
| - 200 bp        | 98,496              | 711       | 1%       | 12.29%                        | 1bp     |

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

**ITEM 4. CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Section 13(a)-15(e) of the Securities Exchange Act of 1934 (the "Act")) as of March 31, 2008 was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Principal Financial Officer and other members of the Company's senior management as of the end of the period preceding the filing of this quarterly report. The Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to

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be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Principal Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

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There have been no changes in internal controls over financial reporting (as defined in Rule 13a-15(f) under the Activities) that occurred during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

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

**PART II OTHER INFORMATION****ITEM 1. Legal Proceedings**

None

**ITEM 1A. Risk Factors**

There are no material changes to the risk factors disclosed in the Company's Form 10-K for the year ended December 31, 2007.

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

- (c) The following table sets forth information for the three months ended March 31, 2008 with respect to the repurchase of outstanding common stock.

**ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b>    | <b>Total # of shares<br/>Purchased</b> | <b>Average price paid<br/>per share</b> | <b>Total # of shares<br/>purchased as<br/>part of a publicly<br/>announced program</b> | <b>Maximum # of<br/>shares that may<br/>yet be<br/>purchased</b> |
|------------------|--|---|--|--|
| 01/1/08-01/31/08 | 6,300                                  | 17.15                                   | 6,300  | 143,700  |
| 02/1/08-02/29/08 | 26,000                                 | 17.17                                   | 26,000   | 117,700  |
| 03/1/08-03/31/08 | 30,000                                 | 16.85                                   | 30,000   | 87,700   |

As of January 23, 2008, a new buyback plan totaling 150,000 shares was authorized by the Company's board of directors to be conducted at prevailing market prices. A total of 62,300 shares were purchased under this authorized buyback plan as of March 31, 2008.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None

**Table of Contents****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

(a) None

(b) None

**ITEM 5. OTHER INFORMATION.**

None

**ITEM 6. EXHIBITS****Regulation****S-K Exhibit**

| <b>Number</b> | <b>Document</b>   | <b>Reference to<br/>Prior Filing<br/>or Exhibit Number<br/>Attached Hereto</b> |
|---------------|---|--|
| 2.0           | Plan of acquisition, reorganization, arrangement, liquidation or succession                             | None   |
| 3.1           | Charter for First PacTrust Bancorp, Inc.  | *  |
| 3.2           | Bylaws of First PacTrust Bancorp, Inc.  | *  |
| 4.0           | Form of Stock Certificate of First PacTrust Bancorp, Inc.   | *  |
| 9.0           | Voting Trust Agreement  | None   |
| 10.1          | Severance Agreement with Hans Ganz  | ***  |
| 10.2          | Severance Agreement with Melanie Stewart  | ***  |
| 10.3          | Severance Agreement with James P. Sheehy  | ***  |
| 10.4          | 401(k) Employee Stock Ownership Plan  | *  |
| 10.5          | Registrant's Stock Option and Incentive Plan  | **   |
| 10.6          | Registrant's Recognition and Retention Plan   | **   |
| 10.7          | Named Executive Officers Salary and Bonus Arrangements for 2005 and Director Fee Arrangements for 2005. | ****   |
| 11.0          | Statement regarding computation of ratios   | None   |
| 14.0          | Code of Ethics  | ***  |
| 16.0          | Letter regarding change in certifying accountant  | None   |
| 18.0          | Letter regarding change in accounting principles  | None   |
| 21.0          | Subsidiaries of the Registrant  | *  |
| 22.0          | Published Report regarding matters submitted to vote of security holders                                | None   |
| 23.0          | Consent of Crowe Chizek and Company LLP   | ****   |
| 24.0          | Power of Attorney, included in signature pages  | ****   |
| 31.1          | Rule 13(a)-14(a) Certification (Chief Executive Officer)  | 31.1   |
| 31.2          | Rule 13(a)-14(a) Certification (Chief Financial Officer)  | 31.2   |

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32.0 Section 1350 Certification Chief Executive Officer and Chief Financial Officer

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- \* Filed in First PacTrust's Registration Statement on Form S-1. Filed on March 28, 2002. Such information is hereby incorporated by reference.
  
- \*\* Filed as an appendix to the Registrant's definitive proxy statement filed on March 21, 2003. Such previously filed document is incorporated herein by reference in accordance with Item 601 of Regulation S-K.
  
- \*\*\* Filed as an Exhibit to the Company's annual report on Form 10-K for the year ended December 31, 2003.  
(b) Exhibits Included, see list in (a)(3).

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(c) Financial Statement Schedules - None

\*\*\*\* Filed as an Exhibit to the Company's annual report on Form 10-K for the year ended December 31, 2007.

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

(b) Financial Statement Schedules - None

**SIGNATURES**

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

FIRST PACTRUST BANCORP, INC.

Date: May 6, 2008

/s/ Hans R. Ganz  
Hans R. Ganz  
President and Chief Executive Officer

Date: May 6, 2008

/s/ Regan Lauer  
Regan Lauer  
Senior Vice President/ Controller  
(Principal Financial and Accounting Officer)