

PACIFIC PREMIER BANCORP INC
Form 10-Q
November 05, 2010

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, 2010

OR

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

For the transition period from _____ to _____

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE
(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
(Address of principal executive offices and zip code)

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

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

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

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

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

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock as of November 5, 2010 was 10,033,836.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
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FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)	September 30, 2009 (Unaudited)
Cash and due from banks	\$ 51,267	\$ 59,677	\$ 115,662
Federal funds sold	29	29	30
Cash and cash equivalents	51,296	59,706	115,692
Investment securities available for sale	172,181	123,407	101,686
FHLB stock/Federal Reserve Bank stock, at cost	13,805	14,330	14,330
Loans held for investment	552,454	575,489	584,614
Allowance for loan losses	(9,170)	(8,905)	(8,107)
Loans held for investment, net	543,284	566,584	576,507
Accrued interest receivable	3,556	3,520	3,346
Other real estate owned	1,700	3,380	3,644
Premises and equipment	8,358	8,713	8,928
Deferred income taxes	10,346	11,465	10,981
Bank owned life insurance	12,323	11,926	11,792
Other assets	4,471	4,292	959
TOTAL ASSETS	\$ 821,320	\$ 807,323	\$ 847,865
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing	\$ 51,798	\$ 33,885	\$ 33,098
Interest bearing:			
Transaction accounts	198,788	161,872	128,493

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Retail certificates of deposit	404,232	417,377	438,545
Wholesale/brokered certificates of deposit	1,973	5,600	6,246
Total deposits	656,791	618,734	606,382
FHLB advances and other borrowings	66,500	91,500	166,500
Subordinated debentures	10,310	10,310	10,310
Accrued expenses and other liabilities	9,175	13,277	6,357
TOTAL LIABILITIES	742,776	733,821	789,549
STOCKHOLDERS' EQUITY			
Preferred Stock, \$.01 par value; 1,000,000 shares authorized; no shares outstanding	-	-	-
Common stock, \$.01 par value; 15,000,000 shares authorized; 10,033,836 shares at September 30, 2010 and December 31, 2009, and 5,003,451 shares at September 30, 2009 issued and outstanding	100	100	49
Additional paid-in capital	79,933	79,907	64,648
Accumulated deficit	(2,126)	(4,764)	(4,487)
Accumulated other comprehensive income (loss), net of tax (benefit) of \$446 at September 30, 2010, (\$1,218) at December 31, 2009, and (\$1,324) at September 30, 2009	637	(1,741)	(1,894)
TOTAL STOCKHOLDERS' EQUITY	78,544	73,502	58,316
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 821,320	\$ 807,323	\$ 847,865

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
INTEREST INCOME				
Loans	\$ 9,196	\$ 9,612	\$ 27,193	\$ 29,832
Investment securities and other interest-earning assets	1,284	1,145	3,461	3,172
Total interest income	10,480	10,757	30,654	33,004

INTEREST EXPENSE

Interest-bearing deposits:

Interest on transaction
accounts

416 378 1,305 943

Interest on certificates of
deposit

1,886 2,667 5,964 9,150

Total interest-bearing
deposits

2,302 3,045 7,269 10,093

FHLB advances and other
borrowings

693 1,870 2,246 5,602

Subordinated debentures

83 89 235 290

Total interest expense

3,078 5,004 9,750 15,985

NET INTEREST INCOME

BEFORE PROVISION

FOR LOAN LOSSES

7,402 5,753 20,904 17,019

PROVISION FOR LOAN
LOSSES

397 2,001 2,092 5,535

NET INTEREST INCOME

AFTER PROVISION FOR

LOAN LOSSES

7,005 3,752 18,812 11,484

NONINTEREST INCOME

Loan servicing fees

122 117 334 402

Deposit fees

207 215 603 638

Net loss from sales of loans

(37) 7 (2,677) 7

Net gain from sales of
investment securities

388 19 762 322

Other-than-temporary
impairment loss on

investment securities, net

(252) (399) (908) (1,600)

Other income

246 297 796 789

Total noninterest income

(loss)

674 256 (1,090) 558

NONINTEREST EXPENSE

Compensation and benefits

2,070 1,954 6,135 6,040

Premises and occupancy

671 628 1,942 1,942

Data processing and
communications

181 143 594 471

Other real estate owned
operations, net

195 198 1,027 197

FDIC insurance premiums

383 274 1,065 1,118

Legal and audit

426 165 815 645

Marketing expense

213 164 570 508

Office and postage expense

158 78 409 247

Other expense

512 515 1,382 1,473

Total noninterest expense

4,809 4,119 13,939 12,641

NET INCOME (LOSS)

BEFORE INCOME TAX

2,870 (111) 3,783 (599)

INCOME TAX (BENEFIT)

1,025 (104) 1,145 (416)

NET INCOME (LOSS)

\$ 1,845 \$ (7) \$ 2,638 \$ (183)

EARNINGS (LOSS) PER
SHARE

Basic	\$ 0.18	\$ -	\$ 0.26	\$ (0.04)
Diluted	\$ 0.17	\$ -	\$ 0.24	\$ (0.04)

WEIGHTED AVERAGE
SHARES OUTSTANDING

Basic	10,033,836	5,003,451	10,033,836	4,919,385
Diluted	11,025,345	5,003,451	11,035,467	4,919,385

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE
INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(dollars in thousands)
(unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2009	10,033,836	\$ 100	\$ 79,907	\$ (4,764)	\$ (1,741)		\$ 73,502
Comprehensive Income:							
Net income				2,638		\$ 2,638	2,638
Unrealized holding gains on securities arising during the period, net of tax						2,293	
Reclassification adjustment for net loss on sale of securities included in net income, net of tax						85	
Net unrealized gain on securities, net of tax					2,378	2,378	2,378
Total comprehensive income						\$ 5,016	
Share-based compensation			26				26

expense						
Balance at						
September 30, 2010	10,033,836	\$ 100	\$ 79,933	\$ (2,126)	\$ 637	\$ 78,544
Balance at						
December 31, 2008	4,903,451	\$ 49	\$ 64,679	\$ (4,304)	\$ (2,876)	\$ 57,548
Comprehensive						
Income:						
Net loss				(183)	\$ (183)	(183)
Unrealized holding						
gains on securities						
arising during the						
period, net of tax					691	
Reclassification						
adjustment for net						
loss on sale of						
securities included						
in net income, net						
of tax					291	
Net unrealized gain						
on securities, net of						
tax					982	982
Total						982
comprehensive						
income						\$ 799
Share-based						
compensation						
expense			204			204
Warrants exercised	200,000	2	148			150
Common stock						
repurchased and						
retired	(100,000)	(2)	(383)			(385)
Balance at						
September 30, 2009	5,003,451	\$ 49	\$ 64,648	\$ (4,487)	\$ (1,894)	\$ 58,316

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

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

	Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		

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Net income (loss)	\$ 2,638	\$ (183)
Adjustments to net income (loss):		
Depreciation and amortization expense	740	765
Provision for loan losses	2,092	5,535
Share-based compensation expense	26	203
Loss on sale and disposal of premises and equipment	30	25
Loss (gain) on sale of other real estate owned	191	(7)
Write down of other real estate owned	698	164
Amortization of premium/discounts on securities held for sale, net	457	235
Gain on sale of loans held for sale	-	(7)
Gain on sale of investment securities available for sale	(762)	(322)
Other-than-temporary impairment loss on investment securities, net	908	1,600
Loss on sale of loans held for investment	2,677	-
Proceeds from the sales of and principal payments from loans held for sale	-	675
Deferred income tax provision (benefit)	1,119	(477)
Change in accrued expenses and other liabilities, net	(4,102)	(1,287)
Federal Home Loan Bank stock dividend	-	(54)
Income from bank owned life insurance, net	(397)	(397)
Change in accrued interest receivable and other assets, net	(1,442)	346
Net cash provided by operating activities	4,873	6,814
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	113,225	51,142
Net change in undisbursed loan funds	(27,031)	(2,496)
Purchase and origination of loans held for investment	(71,198)	(11,017)

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Proceeds from sale of other real estate owned	4,355	45
Principal payments on securities available for sale	11,290	11,153
Purchase of securities available for sale	(135,123)	(147,502)
Proceeds from sale or maturity of securities available for sale	78,031	92,456
Purchases of premises and equipment	(414)	(80)
Purchase of Federal Reserve Bank stock	(420)	-
Redemption of Federal Home Loan Bank of San Francisco stock	945	-
Net cash used in investing activities	(26,340)	(6,299)

CASH FLOWS FROM FINANCING ACTIVITIES

Net increase in deposit accounts	38,057	149,254
Repayment of FHLB advances and other borrowings	(25,000)	(43,400)
Repurchase of common stock	-	(384)
Net cash provided by financing activities	13,057	105,470

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,410)	105,985
CASH AND CASH EQUIVALENTS, beginning of period	59,706	9,707
CASH AND CASH EQUIVALENTS, end of period	\$ 51,296	\$ 115,692

SUPPLEMENTAL CASH FLOW DISCLOSURES

Interest paid	\$ 9,740	\$ 16,054
Income taxes paid	\$ 1,035	\$ 810

NONCASH OPERATING ACTIVITIES DURING THE PERIOD

Restricted stock vested	\$ -	\$ 104
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NONCASH INVESTING ACTIVITIES DURING THE PERIOD

Transfers from loans to other real estate owned	\$ 3,564	\$ 3,806
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Investment securities available for sale purchased and not settled	\$ 2,081	\$ -
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Accompanying notes are an integral part of these consolidated financial statements.

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

September 30, 2010
(UNAUDITED)

Note 1 - Basis of Presentation

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

In the opinion of management, the consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of September 30, 2010, December 31, 2009, and September 30, 2009 and the results of its operations, changes in stockholders’ equity, comprehensive income and cash flows for the three and nine months ended September 30, 2010 and 2009. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending December 31, 2010.

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, as amended, for the year ended December 31, 2009.

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

Note 2 – Recently Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.” ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company’s disclosures about fair value measurements are presented in Note 6 – Fair Value Disclosures. These new disclosure requirements were effective for the period ended September 30, 2010, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company’s financial statement disclosure upon adoption of this ASU.

Effect of warrants and dilutive stock options						
	-	991,509		-	-	
Diluted income (loss) available to common stockholders plus assumed conversions						
	\$1,845	11,025,345	\$0.17	\$(7)	5,003,451	\$(0.00)
Nine Months Ended September 30,						
	Net	2010	Per Share	Net	2009	Per Share
	Income	Shares	Amount	Loss	Shares	Amount
(dollars in thousands, except per share data)						
Net income (loss)						
	\$2,638			\$(183)		
Basic income (loss) available to common stockholders						
	\$2,638	10,033,836	\$0.26	\$(183)	4,919,385	\$(0.04)
Effect of warrants and dilutive stock options						
	-	1,001,631		-	-	
Diluted income (loss) available to common stockholders plus assumed conversions						
	\$2,638	11,035,467	\$0.24	\$(183)	4,919,385	\$(0.04)

Note 5 – Fair Value of Financial Instruments

The Company's estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the balance sheet date and, therefore, current estimates of fair value may differ significantly from the amounts presented. The following methods were used to estimate the fair value of each class of financial instruments identified in the table immediately below.

Cash and Cash Equivalents—The carrying amount approximates fair value due to their short-term repricing characteristics.

Securities Available for Sale—Fair values are based on quoted market prices from securities dealers or readily available market quote systems.

Federal Home Loan Bank (“FHLB”) of San Francisco and Federal Reserve Bank Stock —The carrying value approximates the fair value based upon the redemption provisions of the stock.

Loans Held for Sale—Fair values are based on quoted market prices or dealer quotes.

Loans Held for Investment—The fair value of gross loans receivable has been estimated using the present value of cash flow method, discounting expected future cash flows by estimated market interest rates for loans with similar characteristics, including credit ratings and maturities. Consideration is also given to estimated prepayments and credit losses.

Accrued Interest Receivable/Payable—The carrying amount approximates fair value.

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Deposit Accounts—The fair value disclosed for checking, passbook and money market accounts is the amount payable on demand at the reporting date. The fair value of certificates of deposit accounts is estimated using a discounted cash flow calculation based on interest rates currently offered for certificate of deposits of similar remaining maturities.

FHLB Advances and Other Borrowings—The fair value disclosed for FHLB advances and other borrowings is determined by discounting contractual cash flows at current market interest rates for similar instruments with similar terms.

Subordinated Debentures—The fair value of subordinated debentures is estimated by discounting the balance by the current three-month LIBOR rate plus the current market spread. The fair value is determined based on the maturity date as the Company does not currently have intentions to call the debenture.

Off-balance sheet commitments and standby letters of credit—The notional amount disclosed for off-balance sheet commitments and standby letters of credit is the amount available to be drawn down on all lines and letters of credit. The cost to assume is calculated at 10% of the notional amount.

Based on the above methods and pertinent information available to management as of the periods indicated, the following table presents the carrying amount and estimated fair value of our financial instruments:

	At September 30, 2010		At December 31, 2009		At September 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in thousands)					
Assets:						
Cash and cash equivalents	\$51,296	\$51,296	\$59,706	\$59,706	\$115,692	\$115,692
Securities available for sale	172,181	172,181	123,407	123,407	101,686	101,686
Federal Reserve Bank and FHLB stock, at cost	13,805	13,805	14,330	14,330	14,330	14,330
Loans held for investment, net	543,284	618,264	566,584	558,901	576,507	576,679
Accrued interest receivable	3,556	3,556	3,520	3,520	3,346	3,346
Liabilities:						
Deposit accounts	656,791	662,976	618,734	632,135	606,382	617,966
FHLB advances	38,000	38,255	63,000	64,666	138,000	140,669
Other borrowings	28,500	30,027	28,500	35,384	28,500	27,918
Subordinated debentures	10,310	7,812	10,310	5,378	10,310	7,983
Accrued interest payable	173	173	161	161	267	267
	Notional Amount	Cost to Cede or Assume	Notional Amount	Cost to Cede or Assume	Notional Amount	Cost to Cede or Assume
Off-balance sheet commitments and standby letters of credit	\$39,745	\$3,975	\$13,027	\$1,303	\$2,699	\$270

Note 6 – Fair Value Disclosures

The Company determines the fair market values of certain financial instruments based on the fair value hierarchy established in GAAP under ASC 820, “Fair Value Measurements and Disclosures”, and as modified by ASU No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements”. GAAP requires an entity to maximize the use of observable inputs and minimize the use of

unobservable inputs when measuring fair value and describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities may include debt and equity securities that are actively traded in an exchange market or an over-the-counter market and are considered highly liquid. This category generally includes U.S. Government and agency mortgage-backed debt securities.

Level 2—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 for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes corporate debt securities, derivative contracts, residential mortgage and loans held-for-sale.

Level 3—Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, asset-backed securities (“ABS”), highly structured or long-term derivative contracts and certain collateralized debt obligations (“CDO”) where independent pricing information could not be obtained for a significant portion of the underlying assets.

The Company’s financial assets and liabilities measured at fair value on a recurring basis include securities available for sale and equity securities. Securities available for sale include U.S. Treasuries, municipal bonds and mortgage-backed securities. The Company’s financial assets and liabilities measured at fair value on a non-recurring basis include impaired loans and other real estate owned (“OREO”).

Marketable Securities. Where possible, the Company utilizes quoted market prices to measure debt and equity securities; such items are classified as Level 1 in the hierarchy and include equity securities, U.S. Treasuries and securities issued by government sponsored enterprises (“GSE”). When quoted market prices for identical assets are unavailable or the market for the asset is not sufficiently active, varying valuation techniques are used. Common inputs in valuing these assets include, among others, benchmark yields, issuer spreads, forward mortgage-backed securities trade prices and recently reported trades. Such assets are classified as Level 2 in the hierarchy and typically include private label mortgage-backed securities and corporate bonds. Pricing on these securities are provided to the Company by a pricing service vendor. In the Level 3 category, the Company is classifying all the securities that its pricing service vendor cannot price due to lack of trade activity in these securities.

Impaired Loans. A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral less the anticipated selling costs or the discounted expected future cash flows. The Company does not measure loan impairment on loans less than \$100,000. As such, the Company records impaired loans as non-recurring Level 2 when the fair value of the underlying collateral is based on an observable market price or current appraised value. When current market prices are not available or the Company determines that the fair value of the underlying collateral is further impaired below appraised values, the Company records impaired loans as Level 3. At September 30, 2010, substantially all the Company’s impaired loans were evaluated based on the fair value of their underlying collateral based upon the most recent appraisal available to management.

OREO. The Company generally obtains an appraisal and/or a market evaluation from a qualified third party on all OREO prior to obtaining possession. After foreclosure, an updated appraisal and/or a market evaluation is periodically performed, as deemed appropriate by management, due to changing market conditions or factors specifically attributable to the property's condition. If the carrying value of the property exceeds its fair value less estimated cost to sell, a charge to operations is recorded and the OREO value is reduced accordingly.

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following fair value hierarchy table presents information about the Company's assets measured at fair value on a recurring basis at the date indicated:

	September 30, 2010			Securities at Fair Value
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	\$ 163	\$ -	\$ -	\$ 163
Municipal bonds	20,224	-	-	20,224
Mortgage-backed securities:				
Government Sponsored Enterprise	147,154	-	-	147,154
Private label securities	-	4,446	194	4,640
Total securities available for sale	\$ 167,541	\$ 4,446	\$ 194	\$ 172,181
Stock:				
FHLB stock	\$ 11,786	\$ -	\$ -	\$ 11,786
Federal Reserve Bank stock	2,019	-	-	2,019
Total stock	\$ 13,805	\$ -	\$ -	\$ 13,805
Total securities	\$ 181,346	\$ 4,446	\$ 194	\$ 185,986

The following table provides a summary of the changes in balance sheet carrying values associated with Level 3 financial instruments for the period indicated:

Fair Value
Measurement
Using
Significant
Other

	Unobservable Inputs (Level 3)	Marketable securities (in thousands)
Beginning Balance, January 1, 2010	\$ 623	
Total gains or losses (realized/unrealized):		
Included in earnings (or changes in net assets)	(219)	
Included in other comprehensive income	(147)	
Purchases, issuances, and settlements	(63)	
Transfer in and/or out of Level 3	-	
Ending Balance, September 30, 2010	\$ 194	

The following fair value hierarchy table presents information about the Company's assets measured at fair value on a non-recurring basis at the date indicated:

	September 30, 2010			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Assets at Fair Value
	(in thousands)			
Assets				
Impaired loans	\$ -	\$ 6,615	\$ -	\$ 6,615
Other real estate owned	-	1,700	-	1,700
Total assets	\$ -	\$ 8,315	\$ -	\$ 8,315

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains information and statements that are considered "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. These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future

events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as “may,” “could,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” or words or phrases of similar meaning. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- The strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”);
 - Inflation/deflation, interest rate, market and monetary fluctuations;
 - The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
 - The willingness of users to substitute competitors’ products and services for our products and services;
- The impact of changes in financial services policies, laws and regulations, including those concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;
 - Technological changes;
 - The effect of acquisitions we may make, if any, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;
 - Changes in the level of our nonperforming assets and charge-offs;
- Oversupply of inventory and continued deterioration in values of California real estate, both residential and commercial;
- The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the SEC, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;
 - Possible other-than-temporary impairments of securities held by us;
- The impact of current governmental efforts to restructure the U.S. financial regulatory system, including enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
 - Changes in consumer spending, borrowing and savings habits;
- The effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;

- Ability to attract deposits and other sources of liquidity;
- Changes in the financial performance and/or condition of our borrowers;
- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
 - Unanticipated regulatory or judicial proceedings; and
 - Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q and other reports and registration statements filed by us with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking information and statements to reflect actual results or changes in the factors affecting the forward-looking information and statements. The above factors and other risks and uncertainties are discussed in our 2009 Annual Report on Form 10-K, as amended, as supplemented by the risk factors contained in “Item 1A. Risk Factors” in Part II of this Quarterly Report on Form 10-Q.

Forward-looking information and statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate us. Any investor in our common stock should consider all risks and uncertainties disclosed in our filings with the SEC, all of which are accessible on the SEC’s website at <http://www.sec.gov>.

GENERAL

This discussion should be read in conjunction with our Management Discussion and Analysis of Financial Condition and Results of Operations included in the 2009 Annual Report on Form 10-K, as amended, plus the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. The results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results expected for the year ending December 31, 2010.

We are a California-based bank holding company incorporated in the state of Delaware and registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (“BHCA”). Our wholly owned subsidiary, Pacific Premier Bank, is a California state chartered commercial bank. As a bank holding company, the Corporation is subject to regulation and supervision by the Federal Reserve. We are required to file with the Federal Reserve quarterly and annual reports and such additional information as the Federal Reserve may require pursuant to the BHCA. The Federal Reserve may conduct examinations of bank holding companies, such as the Corporation, and their subsidiaries. The Corporation is also a bank holding company within the meaning of the California Financial Code (the “Financial Code”). As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Financial Institutions (“DFI”).

Under a policy of the Federal Reserve, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such a policy. The Federal Reserve, under the BHCA, has the authority to require a bank holding company to terminate any activity or to relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve’s determination that such activity or control constitutes a serious risk to

the financial soundness and stability of any bank subsidiary of the bank holding company.

As a California state-chartered commercial bank which is a member of the Federal Reserve System, the Bank is subject to supervision, periodic examination and regulation by the DFI and the Federal Reserve. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") through the Deposit Insurance Fund ("DIF"). In general terms, insurance coverage is unlimited for non-interest bearing transaction accounts until December 31, 2012 and up to \$250,000 per depositor for all other accounts in accordance with the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). As a result of this deposit insurance function, the FDIC also has certain supervisory authority and powers over our bank as well as all other FDIC insured institutions. If, as a result of an examination of the Bank, the regulators should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank's operations are unsatisfactory or that the Bank or our management is violating or has violated any law or regulation, various remedies are available to the regulators. Such remedies include the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict growth, to assess civil monetary penalties, to remove officers and directors and ultimately to request the FDIC to terminate the Bank's deposit insurance. As a California-chartered commercial bank, the Bank is also subject to certain provisions of California law.

We provide banking services within our targeted markets in Southern California to businesses, including the owners and employees of those businesses, professionals, real estate investors and non-profit organizations, as well as consumers in the communities we serve. The Bank operates six depository branches in Southern California located in the cities of Costa Mesa, Huntington Beach, Los Alamitos, Newport Beach, San Bernardino, and Seal Beach. Our corporate headquarters are located in Costa Mesa, California. Through our branches and our web site at www.ppbi.com, we offer a broad array of deposit products and services for both business and consumer customers, including checking, money market and savings accounts, cash management services, electronic banking, and on-line bill payment. We also offer a variety of loan products, including commercial business loans, lines of credit, commercial real estate loans, U.S. Small Business Administration ("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, lines of credit, and wholesale and brokered certificates of deposits.

Our principal source of income is the net spread between interest earned on loans and investments and the interest costs associated with deposits and borrowings used to finance the loan and investment portfolios. Additionally, the Bank generates fee income from loan and investment sales and various products and services offered to both depository and loan customers.

Regulatory Developments

On July 21 2010, sweeping financial regulatory reform legislation entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" was signed into law by President Obama. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws.
- Limit the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks, such as the Bank, from availing themselves of such preemption.
- Require federal bank regulators to seek to make their capital requirements countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.

- Require bank holding companies and banks to be both well-capitalized and well-managed in order to engage in interstate bank acquisitions.
- Impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.
- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders.
- Make permanent the \$250,000 limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000 and provide unlimited federal deposit insurance through December 31, 2012 for non-interest bearing demand transaction accounts at all insured depository institutions.
- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Amend the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.
- Increase the authority of the Federal Reserve to examine bank holding companies, such as the Corporation, and their non-bank subsidiaries.
- Exempt non-accelerated filers, such as the Corporation, from the auditor attestation requirements on management's assessment of internal controls. However, the requirement of an assessment by management of the issuer's internal controls is not affected by this amendment.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

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 our financial statements. Our significant accounting policies are described in the Notes to the Consolidated Financial Statements in our 2009 Annual Report on Form 10-K, as amended. 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 our results of operations for future reporting periods.

We consider the allowance for loan losses to be a critical accounting policy that requires judicious estimates and assumptions in the preparation of our financial statements that is particularly susceptible to significant change. For further information, see "Allowances for Loan Losses" discussed later in this report and in our 2009 Annual Report on

Form 10-K, as amended.

RESULTS OF OPERATIONS

In the third quarter of 2010, we recorded net income of \$1.8 million, or \$0.17 per diluted share, compared to net loss of \$7,000 or less than \$0.01 per share for the third quarter of 2009.

The Company's pre-tax income totaled \$2.9 million in the third quarter of 2010, compared with a pre-tax loss of \$111,000 from the same period in the prior year. The \$3.0 million favorable change between quarters was primarily due to:

- A \$1.6 million increase in net interest income due to a higher net interest margin; and
- A \$1.6 million decrease in the provision for loan losses due to improved loan credit quality metrics.

Partially offsetting those favorable items was a \$690,000 increase in noninterest expense, essentially spread throughout all of our expense categories.

For the three months ended September 30, 2010, our return on average assets was 0.91% and return on average equity was 9.62%, compared to a negative return on average assets of less than 0.01% and a negative return on average equity of 0.05% for the same comparable period of 2009.

For the first nine months of 2010, the Company's net income totaled \$2.6 million or \$0.24 per share on a diluted basis, compared with a net loss of \$183,000 or \$0.04 per share in the first nine months of 2009.

Net Interest Income

Our 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 spread between the yield on interest-earning assets and the cost of interest-bearing liabilities and the relative dollar amounts of these assets and liabilities principally affect net interest income.

Net interest income totaled \$7.4 million in the third quarter of 2010, up \$1.6 million or 28.7% from the third quarter of 2009. The increase reflected a higher net interest margin of 3.86% in the current quarter, compared with 2.98% in the prior year quarter, partially offset by a \$4.4 million decrease in average interest-earning assets in the current quarter. The increase in the current quarter net interest margin of 88 basis points reflected the average costs on interest-bearing liabilities decreasing more rapidly than the average yield on interest-earning assets. The decrease in costs on our interest-bearing liabilities of 98 basis points resulted from the decline in our cost of deposits of 72 basis points and borrowings of 39 basis points during the current quarter. These lower costs were partially offset by a lower yield on our current quarter interest-earning assets primarily associated with a decrease in the yield on investment securities of 130 basis points compared to the same quarter in the prior year. The lower yield on our investment securities was primarily due to the decision to reduce our credit risk exposure in our securities portfolio by selling private label securities with higher credit risk and replacing them with lower yielding, lower credit risk GSE securities. These GSE securities also enhanced our regulatory capital as they have a lower asset risk weighting than private label securities.

For the first nine months of 2010, net interest income totaled \$20.9 million, up \$3.9 million or 22.8% from the same period in the prior year. The increase was associated with a higher net interest margin, which increased by 63 basis points to 3.72%, and higher interest-earning assets, which grew by \$15.7 million to \$749.5 million.

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The following tables present for the periods indicated the average dollar amounts from selected balance sheet categories calculated from daily average balances and the total dollar amount, including adjustments to yields and costs, of:

- Interest income earned from average interest-earning assets and the resultant yields; and
- Interest expense incurred from average interest-bearing liabilities and resultant costs, expressed as rates.

The tables also set forth our net interest income, net interest rate spread and net interest rate margin for the periods indicated. The net interest rate margin reflects the relative level of interest-earning assets to interest-bearing liabilities and equals our net interest rate spread divided by average interest-earning assets for the periods indicated.

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009			
	Average Balance	Interest	Average Yield/Cost (dollars in thousands)	Average Balance	Interest	Average Yield/Cost	
Assets							
Interest-earning assets:							
Cash and cash equivalents	\$51,324	\$29	0.22 %	\$82,250	\$49	0.24 %	
Federal funds sold	29	-	0.00	30	-	0.00	
Investment securities	173,398	1,255	2.90	104,476	1,096	4.20	
Loans receivable, net (1)	542,201	9,196	6.78	584,625	9,612	6.58	
Total interest-earning assets	766,952	10,480	5.46	771,381	10,757	5.58	
Noninterest-earning assets	39,849			37,004			
Total assets	\$806,801			\$808,385			
Liabilities and Equity							
Interest-bearing liabilities:							
Transaction accounts	\$248,382	\$416	0.66	\$137,523	\$378	1.09	
Retail certificates of deposit	395,193	1,883	1.89	422,120	2,610	2.45	
Wholesale/brokered certificates of deposit	1,973	3	0.60	8,146	57	2.78	
Total interest-bearing deposits	645,548	2,302	1.41	567,789	3,045	2.13	
FHLB advances and other borrowings	66,663	693	4.12	166,543	1,870	4.45	
Subordinated debentures	10,310	83	3.19	10,310	89	3.42	
Total borrowings	76,973	776	4.00	176,853	1,959	4.39	
Total interest-bearing liabilities	722,521	3,078	1.69	744,642	5,004	2.67	
Non-interest-bearing liabilities	7,572			5,739			
Total liabilities	730,093			750,381			
Stockholders' equity	76,708			58,004			
Total liabilities and equity	\$806,801			\$808,385			
Net interest income		\$7,402			\$5,753		
Net interest rate spread (2)			3.77 %			2.91 %	
Net interest margin (3)			3.86 %			2.98 %	
Ratio of interest-earning assets to interest-bearing liabilities			106.15 %			103.59 %	

(1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees, unamortized discounts and premiums, and allowance for loan losses.

(2) Represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.

(3) Represents net interest income divided by average interest-earning assets.

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Average Balance	Interest	Average Yield/Cost (dollars in thousands)	Average Balance	Interest	Average Yield/Cost
Assets						
Interest-earning assets:						
Cash and cash equivalents	\$56,189	\$95	0.23 %	\$39,454	\$67	0.23 %
Federal funds sold	29	-	0.00	4,001	8	0.27
Investment securities	150,355	3,366	2.98	88,212	3,097	4.68
Loans receivable, net (1)	542,973	27,193	6.68	602,189	29,832	6.61
Total interest-earning assets	749,546	30,654	5.45	733,856	33,004	6.00
Noninterest-earning assets	42,040			35,547		
Total assets	\$791,586			\$769,403		
Liabilities and Equity						
Interest-bearing liabilities:						
Transaction accounts	\$227,801	\$1,305	0.77	\$113,154	\$943	1.11
Retail certificates of deposit	396,567	5,937	2.00	398,157	8,879	2.98
Wholesale/brokered certificates of deposit	2,953	27	1.22	12,229	271	2.96
Total interest-bearing deposits	627,321	7,269	1.55	523,540	10,093	2.58
FHLB advances and other borrowings	71,826	2,246	4.18	171,967	5,602	4.36
Subordinated debentures	10,310	235	3.05	10,310	290	3.76
Total borrowings	82,136	2,481	4.04	182,277	5,892	4.32
Total interest-bearing liabilities	709,457	9,750	1.84	705,817	15,985	3.03
Non-interest-bearing liabilities	7,041			5,620		
Total liabilities	716,498			711,437		
Stockholders' equity	75,088			57,966		
Total liabilities and equity	\$791,586			\$769,403		
Net interest income		\$20,904			\$17,019	
Net interest rate spread (2)			3.61 %			2.97 %
Net interest margin (3)			3.72 %			3.09 %
Ratio of interest-earning assets to interest-bearing liabilities			105.65 %			103.97 %

(1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees, unamortized discounts and premiums, and allowance for loan losses.

(2) Represents the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.

(3) Represents net interest income divided by average interest-earning assets.

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

- Changes in interest rates (changes in interest rates multiplied by prior volume);

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

	Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009 Increase (Decrease) due to			Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009 Increase (decrease) due to		
	Rate	Volume	Net	Rate	Volume	Net
	(in thousands)					
Interest-earning assets						
Cash and cash equivalents	\$(2)	\$(18)	\$(20)	\$-	\$28	\$28
Federal funds sold	-	-	-	(4)	(4)	(8)
Investment securities	(412)	571	159	(1,393)	1,662	269
Loans receivable, net	299	(715)	(416)	314	(2,953)	(2,639)
Total interest-earning assets	\$(115)	\$(162)	\$(277)	\$(1,083)	\$(1,267)	\$(2,350)
Interest-bearing liabilities						
Transaction accounts	\$(187)	\$225	\$38	\$(367)	\$729	\$362
Retail certificates of deposit	(570)	(157)	(727)	(2,907)	(35)	(2,942)
Wholesale/brokered certificates of deposit	(28)	(26)	(54)	(107)	(137)	(244)
FHLB advances and other borrowings	(128)	(1,049)	(1,177)	(211)	(3,145)	(3,356)
Subordinated debentures	(6)	-	(6)	(55)	-	(55)
Total interest-bearing liabilities	\$(919)	\$(1,007)	\$(1,926)	\$(3,647)	\$(2,588)	\$(6,235)
Change in net interest income	\$804	\$845	\$1,649	\$2,564	\$1,321	\$3,885

Provision for Loan Losses

During the third quarter of 2010, the provision for loan losses totaled \$397,000, a decrease of \$1.6 million from the third quarter of 2009. Net loan charge-offs amounted to \$396,000 for the third quarter of 2010, a decrease of \$656,000 from the same period in the prior year. The current period loan charge-offs related to the continued general economic weakness in the California economy, as reflected in high unemployment figures, sluggish commercial real estate markets and other economic factors, which adversely affect our borrowers, our borrowers' businesses and the collateral securing our loans.

For the first nine months of 2010, the provision for loan losses totaled \$2.1 million and net loan charge-offs were \$1.8 million. This compares with a provision for loan losses of \$5.5 million and net charge-offs of \$3.3 million for the first nine months of 2009.

Our Loss Mitigation Department continues collection efforts on loans previously written down and/or charged-off to maximize potential recoveries. See "Allowance for Loan Losses" discussed below in this report.

Noninterest Income (Loss)

Our noninterest income increased \$418,000 or 163.3% from \$256,000 in the third quarter of 2009 to \$674,000 in the third quarter of 2010. This increase between third quarters was primarily due to higher gains from the sale of investment securities available for sale of \$369,000 and a favorable reduction in other-than-temporary impairment charges on our private label securities of \$147,000.

For the first nine months of 2010, our noninterest loss totaled \$1.1 million, compared with income of \$558,000 for the same period a year ago. The unfavorable change was primarily related to the sale of \$26.3 million in loans during the first nine months of 2010 at a \$2.7 million loss, which loss was entirely related to \$12.0 million of sub-performing and nonperforming loans included in the loan sale. Partially offsetting this loss was an improvement in other-than-temporary impairment charges of \$692,000 and higher gains on sales of investment securities available for sale of \$440,000 for the first nine months of 2010, compared to same period in prior year.

Noninterest Expense

Noninterest expense totaled \$4.8 million in the third quarter of 2010, up \$690,000 or 16.8% from the same period in the prior year. The increase was primarily associated with higher costs within our legal and audit expense category of \$261,000, primarily associated with loan workouts, with the remainder of the increase spread through various expense categories.

For the first nine months of 2010, noninterest expense totaled \$13.9 million, up \$1.3 million or 10.3% from the first nine months of 2009. The increase primarily related to higher costs within our other real estate owned operations, net category of \$830,000, due primarily to increased write downs of \$536,000 and an unfavorable change from gains to losses on sales of \$199,000, with the remainder of the increase spread through various expense categories.

Income Taxes

For the three months ended September 30, 2010, we had a tax provision of \$1.0 million, compared to a tax benefit of \$104,000 for the same period in 2009. The change in income taxes was primarily due to a favorable change in net income (loss) before taxes of \$3.0 million. For the nine months ended September 30, 2010, we had a tax provision of \$1.1 million, compared to a tax benefit of \$416,000 for the same period in 2009. The change in income taxes for the year-to-date periods was primarily due to a favorable change in net income (loss) before taxes of \$4.4 million. At September 30, 2010, we had no valuation allowance against our deferred tax asset of \$10.3 million based on management's analysis that the asset was more-likely-than-not to be realized.

FINANCIAL CONDITION

At September 30, 2010, assets totaled \$821.3 million, down \$26.5 million or 3.1% from September 30, 2009, but up \$14.0 million or 1.7% from December 31, 2009. During the third quarter of 2010, assets increased \$24.1 million, primarily due to increases in cash of \$16.6 million and investment securities available for sale of \$8.7 million.

Loans

At September 30, 2010, net loans held for investment totaled \$543.3 million, down \$33.2 million or 5.8% from September 30, 2009 and \$23.3 million or 4.1% from December 31, 2009.

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

September 30, 2010

December 31, 2009

September 30, 2009

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	Amount	Percent of Total	Weighted Average Interest Rate	Amount	Percent of Total	Weighted Average Interest Rate	Amount	Percent of Total	Weighted Average Interest Rate
(dollars in thousands)									
Real estate loans:									
Multi-family	\$ 251,163	45.0 %	6.18 %	\$ 278,744	48.4 %	6.20 %	\$ 284,116	48.6 %	6.20 %
Commercial non-owner occupied									
occupied	130,428	23.4 %	6.71 %	149,577	26.0 %	6.84 %	153,406	26.2 %	6.88 %
One-to-four family (1)									
	19,668	3.5 %	5.42 %	8,491	1.5 %	8.25 %	8,591	1.5 %	8.30 %
Business loans:									
Commercial owner occupied (2)									
	105,415	18.9 %	6.52 %	103,019	17.9 %	7.11 %	105,060	18.0 %	7.16 %
Commercial and industrial									
	44,580	8.0 %	6.48 %	31,109	5.4 %	6.98 %	28,820	4.9 %	7.11 %
SBA									
	3,482	0.6 %	5.92 %	3,337	0.5 %	5.73 %	3,521	0.6 %	5.70 %
Other loans									
	3,520	0.6 %	4.33 %	1,991	0.3 %	1.33 %	1,644	0.2 %	1.33 %
Total gross loans									
	558,256	100.0 %	6.35 %	576,268	100.0 %	6.58 %	585,158	100.0 %	6.61 %
Less loans held for sale									
	-			-			-		
Total gross loans held for investment									
	558,256			576,268			585,158		
Less (plus):									
Deferred loan origination costs (fees) and premiums (discounts)									
	(5,802)			(779)			(544)		
Allowance for loan losses									
	(9,170)			(8,905)			(8,107)		
Loans held for investment, net									
	\$ 543,284			\$ 566,584			\$ 576,507		

(1) Includes second trust deeds.

(2) Secured by real estate.

Gross loans held for investment totaled \$558.3 million at September 30, 2010, compared to \$585.2 million at September 30, 2009 and \$576.3 million at December 31, 2009. The decrease of \$18.0 million since December 31, 2009 was primarily due to principal repayments of \$89.6 million, loan sales of \$26.3 million, and OREO acquired in the settlement of loans of \$3.6 million, which was partially offset by loan originations of \$46.3 million, loan purchases of \$30.1 million and the net change in undisbursed loan funds of \$27.0 million. Given the weakness in the commercial real estate (“CRE”) markets where our loans are located, during the first quarter of 2010, management

implemented a strategy to sell CRE loans to reduce its concentration in the loan portfolio. In accordance with that strategy, during the first nine months of 2010, \$14.3 million of performing commercial owner and non-owner occupied loans as well as multi-family loans were sold at par. In addition, over the same period, we sold an aggregate of \$12.0 million of sub performing or nonperforming predominately CRE non-owner occupied and multi-family loans at a recorded loss of \$2.7 million. The sale of these loans was part of our loss mitigation strategy to minimize losses in our loan portfolio. From time to time, management utilizes loan purchases or sales to manage its liquidity, interest rate risk, loan to deposit ratio, diversification of the loan portfolio and net balance sheet growth.

The following table sets forth loan originations, purchases, sales and principal repayments relating to our gross loans for the periods indicated:

	Nine Months Ended	
	September 30, 2010	September 30, 2009
	(in thousands)	
Beginning balance gross loans	\$ 576,268	\$ 628,767
Loans originated:		
Real estate loans:		
Multi-family	-	494
Business loans:		
Commercial owner occupied (1)	443	365
Commercial and industrial	39,759	3,890
SBA	1,370	1,150
Other loans	4,776	1,067
Total loans originated	46,348	6,966
Loans purchased:		
Multi-family	-	4,051
Commercial non-owner occupied	1,244	-
Commercial owner occupied	18,825	-
Commercial and industrial	1,188	-
One-to-four family	7,238	-
Other loans	1,618	-
Total loans purchased	30,113	4,051

Total loan production	76,461	11,017
Principal repayments	(89,607)	(49,954)
Change in undisbursed loan funds	27,031	2,496
Sales of loans	(26,295)	-
Charge-offs	(2,038)	(3,359)
Transfer to other real estate owned	(3,564)	(3,809)
Net decrease in gross loans	(18,012)	(43,609)
Ending balance gross loans	\$ 558,256	\$ 585,158

The following table sets forth the weighted average interest rates, weighted average number of months to reprice and the periods to repricing for our multi-family and commercial real estate loans and our commercial owner occupied loans at the date indicated:

	September 30, 2010				
	Number of Loans	Amount (dollars in thousands)	Weighted Average Interest Rate		Weighted Average Months to Reprice
1 Year and less (1)	243	\$ 233,309	6.24 %		3.53
Over 1 Year to 3 Years	114	136,374	6.64 %		24.85
Over 3 Years to 5 Years	20	25,955	6.57 %		50.58
Over 5 Years to 7 Years	11	12,693	7.15 %		72.31
Over 7 Years to 10 Years	11	9,070	6.39 %		92.40
Total adjustable	399	\$ 417,401	6.42 %		17.44
Fixed	99	69,605	6.24 %		
Total	498	\$ 487,006	6.40 %		

(1) Includes three and five-year hybrid loans that have reached their initial repricing date.

Delinquent Loans. When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally record a notice of default and, after providing the required notices to the borrower, commence foreclosure proceedings. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At September 30,

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2010, loans delinquent 30 or more days as a percentage of total gross loans was 0.64%, down from 1.65% at December 31, 2009 and from 1.35% at September 30, 2009. The improvement in the ratio during 2010 was primarily from the sale of \$11.0 million of predominantly delinquent commercial real estate, multi-family and SBA loans.

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

	30 - 59 Days		60 - 89 Days		90 Days or More (1)		Total	
	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans	# of Loans	Principal Balance of Loans
	(dollars in thousands)							
At September 30, 2010								
Real estate loans:								
Multi-family	1	\$ 327	-	\$ -	-	\$ -	1	\$ 327
One-to-four family	1	58	-	-	2	31	3	89
Business loans:								
Commercial owner occupied								
	-	-	-	-	3	2,239	3	2,239
Commercial and industrial								
	1	45	-	-	1	6	2	51
SBA	1	136	-	-	6	705	7	841
Total	4	\$ 566	-	\$ -	12	\$ 2,981	16	\$ 3,547
Delinquent loans to total gross loans		0.10 %		0.00 %		0.53 %		0.64 %
At December 31, 2009								
Real estate loans:								
Multi-family	1	\$ 3,149	-	\$ -	3	\$ 2,073	4	\$ 5,222
Commercial non-owner occupied								
	1	694	-	-	1	1,851	2	2,545
One-to-four family	3	45	-	-	4	97	7	142
Business loans:								
Commercial owner occupied								
	-	-	-	-	2	996	2	996
SBA	1	69	1	52	3	463	5	584
Other	1	19	-	-	-	-	1	19
Total	7	\$ 3,976	1	\$ 52	13	\$ 5,480	21	\$ 9,508
Delinquent loans to total gross loans		0.69 %		0.01 %		0.95 %		1.65 %

At September 30, 2009								
Real estate loans:								
Multi-family	-	\$ -	-	\$ -	1	\$ 2,234	1	\$ 2,234
Commercial non-owner occupied	-	-	-	-	1	2,168	1	2,168
One-to-four family	3	57	1	14	5	108	9	179
Business loans:								
Commercial owner occupied	-	-	-	-	5	2,690	5	2,690
Commercial and industrial	-	-	-	-	1	52	1	52
SBA	-	-	1	146	4	432	5	578
Total	3	\$ 57	2	\$ 160	17	\$ 7,684	22	\$ 7,901
Delinquent loans to total gross loans								
		0.01 %		0.03 %		1.31 %		1.35 %

(1) All 90 day or greater delinquency are on nonaccrual status and are reported as part of nonperforming loans.

Allowance for Loan Losses. The allowance for loan losses represents an estimate of probable losses inherent in our loan portfolio and is determined by applying a systematically derived loss factor to individual segments of the loan portfolio. The adequacy and appropriateness of the allowance for loan losses and the individual loss factors is reviewed each quarter by management.

The loss factor for each segment of our loan portfolio is generally based on our actual historical loss rate experience with emphasis on recent past periods to account for current economic conditions and supplemented by management judgment for certain segments where we lack loss history experience. We also consider historical charge-off rates for the last 10 and 15 years for commercial banks and savings institutions headquartered in California as collected and reported by the FDIC. The loss factor is adjusted by qualitative adjustment factors to arrive at a final loss factor for each loan portfolio segment. For additional information regarding the qualitative adjustments, please see "Allowances for Loan Losses" discussed in our 2009 Annual Report on Form 10-K, as amended. The qualitative factors allow management to assess current trends within our loan portfolio and the economic environment to incorporate their affect when calculating the allowance for loan losses. The final loss factors are applied to pass graded loans within our loan portfolio. Higher factors are applied to loans graded below pass, including classified and criticized assets.

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

At September 30, 2010, the Company's allowance for loan losses was \$9.2 million, an increase of \$1.1 million from the year ago quarter end and an increase of \$265,000 from year-end 2009. At September 30, 2010, given the composition of our loan portfolio, the allowance for loan losses was considered adequate to cover estimated losses inherent in the loan portfolio.

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

Balance at End of Period Applicable to	September 30, 2010			December 31, 2009			September 30, 2009		
	Amount	Allowance as a % of Category Total	% of Loans in Category to Total Loans	Amount	Allowance as a % of Category Total	% of Loans in Category to Total Loans	Amount	Allowance as a % of Category Total	% of Loans in Category to Total Loans
	(dollars in thousands)								
Real estate loans:									
Multi-family	\$ 2,856	1.1 %	45.0 %	\$ 3,350	1.2 %	48.4 %	\$ 2,558	0.9 %	48.6 %
Commercial non-owner occupied									
One-to-four family	1,734	1.3 %	23.4 %	1,585	1.1 %	26.0 %	1,373	0.9 %	26.2 %
Business loans:									
Commercial owner occupied	382	1.9 %	3.5 %	269	3.2 %	1.5 %	263	3.1 %	1.5 %
Commercial and industrial	1,286	1.2 %	18.9 %	897	0.9 %	17.9 %	815	0.8 %	18.0 %
SBA	2,456	5.5 %	8.0 %	2,384	7.7 %	5.4 %	2,622	9.1 %	4.9 %
Other Loans	178	5.1 %	0.6 %	323	9.7 %	0.5 %	455	12.9 %	0.6 %
Unallocated	42	1.2 %	0.6 %	2	0.1 %	0.3 %	21	1.3 %	0.2 %
Total	236	--	--	95	--	--	-	--	--
	\$ 9,170	--	100.0 %	\$ 8,905	--	100.0 %	\$ 8,107	--	100.0 %

The current year increase in the allowance for loan losses was primarily due to the provision for loan losses of \$2.1 million, partially offset by net loan charge-offs of \$1.8 million, which charge-offs were down from the \$3.3 million recorded in the first nine months of 2009. The increase in the allowance for loan losses from December 31, 2009 was attributed to the continued slow economic growth in the economy, especially in Southern California. At September 30, 2010, the allowance for loan losses as a percentage of total loans remained at 1.66% from December 31, 2009, while the allowance for loan losses as a percent of nonperforming loans increased to 297.92% from 88.94% at December 31, 2009, primarily due to the sale an aggregate of \$12.0 million of sub performing or nonperforming predominately CRE non-owner occupied and multi-family loans.

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

Balance, beginning of period	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(dollars in thousands)			
	\$ 9,169	\$ 7,158	\$ 8,905	\$ 5,881

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Provision for loan losses	397	2,001	2,092	5,535
Charge-offs:				
Real estate:				
Multi-family	-	-	(334)	(515)
Commercial non-owner occupied	-	-	(405)	-
One-to-four family	(10)	-	(117)	(125)
Land	-	-	-	(468)
Business loans:				
Commercial owner occupied	(264)	-	(264)	(59)
Commercial and industrial	(32)	(1,037)	(547)	(1,392)
SBA	(131)	(22)	(371)	(800)
Total charge-offs	(437)	(1,059)	(2,038)	(3,359)
Recoveries :				
Real estate:				
One-to-four family	17	1	39	24
Business loans:				
Commercial owner occupied	-	-	-	-
Commercial and industrial	1	1	11	2
SBA	20	-	151	11
Other loans	3	5	10	13
Total recoveries	41	7	211	50
Net loan charge-offs	(396)	(1,052)	(1,827)	(3,309)
Balance at end of period	\$ 9,170	\$ 8,107	\$ 9,170	\$ 8,107
Ratios:				
Net charge-offs to average total loans, net	0.29 %	0.72 %	0.45 %	0.73 %
Allowance for loan losses to gross loans at end of period	1.66 %	1.39 %	1.66 %	1.39 %

Investment Securities

Investment securities available for sale totaled \$172.2 million at September 30, 2010, up \$70.5 million or 69.3% from September 30, 2009 and up \$48.8 million or 39.5% from December 31, 2009. The increase in the current year was primarily due to purchases of investment securities of \$135.1 million, partially offset by the sale of securities totaling \$77.3 million and principal received of \$11.3 million. As part of our strategy to reduce our risk profile, we used excess cash from loans sales and deposit growth to purchase investment securities, which were predominately GSE mortgage-backed securities and municipal bonds. At September 30, 2010, the investment securities available for sale consisted of \$147.2 million of GSE mortgage-backed securities, \$20.2 million of municipal bonds, \$4.6 million of private label mortgage-backed securities and \$163,000 in U.S. Treasury securities. Within our private label securities, 30 or \$0.8 million were rated as investment grade while 49 or \$3.8 million were rated as below investment grade, which is any rating below "BBB". All of our private label mortgage-backed securities were acquired when we redeemed our shares in certain mutual funds in 2008.

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

	September 30, 2010			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	\$ 147	\$ 16	\$ -	\$ 163
Municipal bonds	19,545	680	(1)	20,224
Mortgage-backed securities:				
Government Sponsored Enterprise				
Private label securities	145,242	2,070	(158)	147,154
Total securities available for sale	6,164	133	(1,657)	4,640
Stock:	171,098	2,899	(1,816)	172,181
FHLB stock	11,786	-	-	11,786
Federal Reserve Bank stock	2,019	-	-	2,019
Total stock	13,805	-	-	13,805
Total securities	\$ 184,903	\$ 2,899	\$ (1,816)	\$ 185,986

	December 31, 2009			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	\$ 148	\$ 6	\$ -	\$ 154
Municipal bonds	17,918	200	(153)	17,965
Mortgage-backed securities:				
Government Sponsored Enterprise				
Private label securities	100,104	244	(738)	99,610
Total securities available for sale	8,196	63	(2,581)	5,678
Stock:	126,366	513	(3,472)	123,407
FHLB stock	12,731	-	-	12,731
Federal Reserve Bank stock	1,599	-	-	1,599

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Total stock	14,330	-	-	14,330
Total securities	\$ 140,696	\$ 513	\$ (3,472)	\$ 137,737
		September 30, 2009		
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	\$ 148	\$ 9	\$ -	\$ 157
Mortgage-backed securities:				
Government Sponsored Enterprise				
Enterprise	83,683	490	(112)	84,061
Private label securities				
Private label securities	21,072	49	(3,653)	17,468
Total securities available for sale	104,903	548	(3,765)	101,686
Stock:				
FHLB stock	12,731	-	-	12,731
Federal Reserve Bank stock				
Bank stock	1,599	-	-	1,599
Total stock	14,330	-	-	14,330
Total securities	\$ 119,233	\$ 548	\$ (3,765)	\$ 116,016

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

	September 30, 2010									
	One Year or Less		More than One to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
(dollars in thousands)										
Investment securities available for sale:										
U.S. Treasury	\$ -	0.00 %	\$ 79	3.53 %	\$ 84	4.15 %	\$ -	0.00 %	\$ 163	3.84 %
Municipal bonds	-	0.00 %	-	0.00 %	-	0.00 %	20,224	3.95 %	20,224	3.95 %
Mortgage-backed securities:										
Government Sponsored Enterprise										
Enterprise	-	0.00 %	29	5.97 %	148	5.35 %	146,977	3.10 %	147,154	3.11 %
Private label securities										
Private label securities	-	0.00 %	-	0.00 %	-	0.00 %	4,640	5.80 %	4,640	5.80 %

Total investment securities available for sale	-	0.00 %	108	4.19 %	232	4.92 %	171,841	3.27 %	172,181	3.30 %
Stock:										
FHLB	11,786	0.00 %	-	0.00 %	-	0.00 %	-	0.00 %	11,786	0.00 %
Federal Reserve Bank	2,019	6.00 %	-	0.00 %	-	0.00 %	-	0.00 %	2,019	6.00 %
Total stock	13,805	0.88 %	-	0.00 %	-	0.00 %	-	0.00 %	\$ 13,805	0.88 %
Total securities	\$ 13,805	0.88 %	\$ 108	4.19 %	\$ 232	4.92 %	\$ 171,841	3.27 %	\$ 185,986	3.12 %

Each quarter, we review individual securities classified as available for sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that we will be unable to collect all amounts due according to the contractual terms of the debt security, an other-than-temporary impairment (“OTTI”) write down is recorded against the security and a loss recognized.

In determining if a security has an OTTI loss, we review downgrades in credit ratings and the length of time and extent that the fair value has been less than the cost of the security. We estimate OTTI losses on a security primarily through:

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

During the quarter ended September 30, 2010, we took a net \$252,000 OTTI charge against our private label mortgage-backed securities deemed to be impaired. This brought our OTTI charges for the nine months ended September 30, 2010 to \$908,000, compared to \$1.6 million of OTTI charges during the same period last year. These impaired private label mortgage-backed securities are classified as substandard assets with all the interest received since the date of impairment being applied against their principal balances.

Securities with OTTI credit losses recognized in noninterest income and associated OTTI non-credit losses recognized in accumulated other comprehensive loss during the periods indicated were as follows:

Rating	Number	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
		Fair Value	OTTI Credit Loss	Non Credit Gain (Loss) in AOCL	Fair Value	OTTI Credit Loss	Non Credit Gain (Loss) in AOCL
(dollars in thousands)							
B	-	\$ -	\$ -	\$ -	-	\$ -	\$ -
BB	-	-	-	-	-	-	-
Caa1	1	395	40	22	-	-	-
Caa3	-	-	-	-	-	-	-
Ca	2	-	2	-	5	10	26
C	4	89	15	5	2	223	184

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CC	4	50	68	(49)	1	115	53	(8)
CCC	3	92	79	(20)	2	337	136	-
D	1	203	48	(15)	-	-	-	-
	15	\$ 829	\$ 252	\$ (57)	10	\$ 685	\$ 399	\$ (8)

Rating	Number	Nine Months Ended September 30, 2010			Number	Nine Months Ended September 30, 2009		
		Fair Value	OTTI credit loss	Non Credit Gain (Loss) in AOCL		Fair Value	OTTI credit loss	Non Credit Gain (Loss) in AOCL
(dollars in thousands)								
B	-	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -
BB	-	-	-	-	-	-	-	-
Caa1	1	395	40	22	-	-	-	-
Caa3	-	-	-	-	1	27	45	5
Ca	2	-	2	-	8	48	233	(7)
C	5	217	237	(28)	8	634	800	(124)
CC	5	140	284	(202)	3	166	290	8
CCC	4	132	205	(85)	3	373	232	(6)
D	3	203	140	(15)	-	-	-	-
	20	\$ 1,087	\$ 908	\$ (308)	23	\$ 1,248	\$ 1,600	\$ (124)

The largest OTTI credit loss for any single debt security was \$146,000 for the nine months ended September 30, 2010 and \$233,000 for the same period in the prior year.

Nonperforming Assets

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

At September 30, 2010, nonperforming assets totaled \$4.8 million or 0.58% of total assets, down from \$13.4 million or 1.58% of total assets at September 30, 2009 and \$13.4 million or 1.66% of total assets at December 31, 2009. During the first nine months of 2010, nonperforming loans decreased by \$6.9 million, primarily due to the sale of \$7.4 million of nonperforming loans at a loss of \$1.7 million. At September 30, 2010, nonperforming assets consisted of nonaccrual loans totaling \$3.1 million and OREO of \$1.7 million, essentially all from one commercial land property.

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

	September 30, 2010	December 31, 2009	September 30, 2009
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(dollars in thousands)

Nonperforming assets					
Real estate:					
Multi-family	\$ -	\$ 5,223	\$ 2,234		
Commercial non-owner occupied	-	1,851	3,096		
One-to-four family	48	107	108		
Business loans:					
Commercial owner occupied	2,239	996	2,690		
Commercial and industrial	6	955	1,027		
SBA (1)	785	880	596		
Total nonaccrual loans	3,078	10,012	9,751		
Other real estate owned	1,700	3,380	3,644		
Total nonperforming assets, net	\$ 4,778	\$ 13,392	\$ 13,395		
Allowance for loan losses	\$ 9,170	\$ 8,905	\$ 8,107		
Allowance for loan losses as a percent of total nonperforming loans, gross	297.92 %	88.94 %	83.14 %		
Nonperforming loans as a percent of gross loans receivable	0.55 %	1.74 %	1.67 %		
Nonperforming assets as a percent of total assets	0.58 %	1.66 %	1.58 %		

(1) The SBA totals include the guaranteed amount, which was \$358,000 as of September 30, 2010, \$341,000 as of December 31, 2009, and \$293,000 as of September 30, 2009.

Liabilities and Stockholders' Equity

Total liabilities were \$742.8 million at September 30, 2010, compared to \$789.6 million at September 30, 2009 and \$733.8 million at December 31, 2009. The increase during 2010 was due to an increase in total deposits of \$38.1 million, partially offset by a decrease in FHLB advances and other borrowings of \$25.0 million and a decrease in accrued expenses and other liabilities of \$4.1 million.

Deposits. Total deposits were \$656.8 million at September 30, 2010, up \$50.4 million or 8.3% from September 30, 2009 and up \$38.1 million or 6.2% from December 31, 2009. The increase in deposits during 2010 was primarily due to an increase in interest bearing transaction accounts of \$36.9 million and noninterest bearing transaction accounts of \$17.9 million, partially offset by a reduction in certificates of deposit accounts of \$16.8 million. At September 30, 2010, we had \$2.0 million of wholesale deposits and no brokered deposits. At September 30, 2010, our loan to deposit ratio was 84.1%, down from 93.0% at December 31, 2009 and 96.4% at September 30, 2009.

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

September 30, 2010			December 31, 2009			September 30, 2009		
Balance	% of Total Deposits	Weighted Average Rate	Balance	% of Total Deposits	Weighted Average Rate	Balance	% of Total Deposits	Weighted Average Rate

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(dollars in thousands)

Transaction accounts:															
Non-interest bearing															
checking	\$ 51,798	7.9	%	0.00	%	\$ 33,885	5.5	%	0.00	%	\$ 33,098	5.5	%	0.00	%
Interest bearing															
checking	20,161	3.1	%	0.13	%	22,406	3.6	%	0.39	%	23,162	3.8	%	0.67	%
Money market	107,591	16.4	%	0.72	%	77,687	12.6	%	1.17	%	62,334	10.3	%	1.63	%
Regular passbook	71,036	10.8	%	0.73	%	61,779	9.9	%	1.33	%	42,997	7.0	%	1.69	%
Total transaction accounts	250,586	38.2	%	0.53	%	195,757	31.6	%	0.93	%	161,591	26.6	%	1.18	%
Certificates of deposit accounts:															
Less than															
1.00%	51,197	7.8	%	0.45	%	30,867	5.0	%	0.82	%	10,718	1.8	%	0.99	%
1.00 - 1.99	140,008	21.3	%	1.67	%	91,207	14.7	%	1.63	%	89,387	14.7	%	1.69	%
2.00 - 2.99	211,346	32.2	%	2.33	%	292,689	47.3	%	2.44	%	321,182	53.0	%	2.42	%
3.00 - 3.99	1,032	0.2	%	3.28	%	3,427	0.6	%	3.29	%	15,500	2.6	%	3.47	%
4.00 - 4.99	1,335	0.2	%	4.46	%	3,463	0.6	%	4.40	%	6,268	1.0	%	4.37	%
5.00 and greater	1,287	0.2	%	5.28	%	1,324	0.2	%	5.34	%	1,736	0.3	%	5.92	%
Total certificates of deposit accounts	406,205	61.8	%	1.88	%	422,977	68.4	%	2.18	%	444,791	73.4	%	2.32	%
Total deposits	\$ 656,791	100.0	%	1.37	%	\$ 618,734	100.0	%	1.79	%	\$ 606,382	100.0	%	2.01	%

Borrowings. At September 30, 2010, total borrowings amounted to \$76.8 million, down \$100.0 million or 56.6% from September 30, 2009 and \$25.0 million or 27.3% from December 31, 2009. At September 30, 2010, total borrowings represented 9.4% of total assets and were comprised of the following:

- One FHLB term borrowing of \$38.0 million at an interest rate of 4.92% maturing in November 2010, collateralized by pledges of certain real estate loans with an aggregate principal balance of \$429.2 million and FHLB stock totaling \$11.8 million;
 - Three inverse putable reverse repurchase agreements totaling \$28.5 million at a weighted average rate of 3.04% and secured by approximately \$41.2 million of GSE mortgage backed securities; and
- Subordinated debentures used to fund the issuance of trust preferred securities in 2004 of \$10.3 million with a rate of 3.28%.

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

	September 30, 2010		December 31, 2009		September 30, 2009	
	Balance	Weighted Average	Balance	Weighted Average	Balance	Weighted Average

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		Rate		(dollars in thousands)	Rate		Rate		
FHLB advances	\$38,000	4.92	%	\$63,000	4.90	%	\$138,000	4.92	%
Reverse repurchase agreements	28,500	3.04	%	28,500	3.04	%	28,500	3.04	%
Subordinated debentures	10,310	3.28	%	10,310	3.00	%	10,310	3.26	%
Total borrowings	\$76,810	4.00	%	\$101,810	4.19	%	\$176,810	4.52	%
Weighted average cost of borrowings during the quarter	4.00	%		4.40	%		4.39	%	
Borrowings as a percent of total assets	9.4	%		12.6	%		20.9	%	

Stockholders' Equity. Total stockholders' equity was \$78.5 million as of September 30, 2010, up from \$58.3 million at September 30, 2009 and \$73.5 million at December 31, 2009. The current year increase of \$5.0 million was primarily due to net income of \$2.6 million and an increase in the accumulated adjustment to stockholders' equity of \$2.4 million as a result of an increase in the unrealized value on our investment securities portfolio available for sale. The increase in total stockholders' equity from September 30, 2009 to December 31, 2009 was primarily due to a successful capital raise in the fourth quarter of 2009, whereby the Company raised gross proceeds of \$15.5 million from the sale of 5,030,385 shares of common stock at a public offering price of \$3.25 per share. At September 30, 2010, the Company's tangible common equity to total assets ratio was 9.56%. Our basic book value per share increased to \$7.83 at September 30, 2010 from \$7.33 at December 31, 2009. Our diluted book value per share increased to \$7.20 at September 30, 2010 from \$6.75 at December 31, 2009, reflecting an annualized increase of 8.9%.

CAPITAL RESOURCES AND LIQUIDITY

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

Our primary sources of funds generated during the first nine months of 2010 were from:

- Proceeds of \$89.3 million from the sale and principal payments on securities available for sale;
- Proceeds \$113.2 million from the sale and principal payments on loans held for investment; and
 - An increase in deposits of \$38.1 million.

We used these funds to:

- Purchase of \$135.1 million of securities available for sale;
- Purchase and originate loans held for investment of \$76.5 million; and
 - Reduce FHLB advances by \$25.0 million.

Our most liquid assets are unrestricted cash and short-term investments. The levels of these assets are dependent on our operating, lending and investing activities during any given period. Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. At September 30, 2010, cash and cash equivalents totaled \$51.3 million and the market value of our investment securities

available for sale totaled \$172.2 million. If additional funds are needed, we have additional sources of liquidity that can be accessed, including FHLB advances, Federal Funds lines, the Federal Reserve's lending programs and loan sales. As of September 30, 2010, the maximum amount we could borrow through the FHLB was \$356.6 million, of which \$237.7 million was available for borrowing based on collateral pledged of \$429.2 million in real estate loans and \$11.8 million of FHLB Stock. At September 30, 2010, we had \$199.7 million of available funds to borrow based on our \$38.0 million FHLB advance outstanding and our current pledged assets. In addition, the Bank had unsecured lines of credit aggregating to \$48.8 million at September 30, 2010, which consisted of \$44.0 million with other financial institutions from which to draw funds and \$4.8 million with the Federal Reserve Bank. At September 30, 2010, no funds were drawn against these lines. For the quarter ended September 30, 2010, our average liquidity ratio was 23.21%, up from a ratio of 17.66 % for the same period in 2009.

To the extent that 2010 deposit growth is not sufficient to satisfy our ongoing commitments to fund maturing and withdrawalable deposits, repay maturing borrowings, fund existing and future loans, or make investments, we may access funds through our FHLB borrowing arrangement, unsecured lines of credit or other sources.

The Company has a policy in place that permits the purchase of brokered funds, in an amount not to exceed 5% of total deposits, as a secondary source for funding. At September 30, 2010, the balance of brokered time deposits was approximately \$1.9 million.

The Corporation is a company separate and apart from the Bank that must provide for its own liquidity. The Corporation's primary sources of liquidity are dividends from the Bank. There are statutory and regulatory provisions that limit the ability of the Bank to pay dividends to the Corporation. Management believes that such restrictions will not have a material impact on the ability of the Corporation to meet its ongoing cash obligations.

In February 2010, the boards of directors of the Corporation and the Bank adopted certain board resolutions which require, among other things, that we provide prior written notice to the Federal Reserve Bank before (i) receiving any dividends or other distributions from the Bank, (ii) declaring any dividends or making any payments on trust preferred securities or subordinated debt, (iii) making any capital distributions, (iv) incurring, increasing, refinancing or guaranteeing any debt; (v) issuing any trust preferred securities or (iv) repurchasing, redeeming or acquiring any of our stock.

Contractual Obligations and Off-Balance Sheet Commitments

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

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

	September 30, 2010					Total
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years		
Contractual obligations						
FHLB advances	\$ 38,000	\$ -	\$ -	\$ -	\$ 38,000	\$ 38,000
Other borrowings	-	-	-	28,500	28,500	28,500
Subordinated debentures	-	-	-	10,310	10,310	10,310
	218,023	176,798	10,782	602	406,205	406,205

Certificates of deposit

Operating leases	613	1,248	1,202	2,829	5,892
Total contractual cash obligations	\$ 256,636	\$ 178,046	\$ 11,984	\$ 42,241	\$ 488,907

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

Commitments to originate loans held for investment are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Undisbursed loan funds and unused lines of credit on home equity and commercial loans include committed funds not disbursed. Letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. As of September 30, 2010, we had commitments to extend credit on existing lines and letters of credit of \$39.7 million, compared to \$13.0 million at December 31, 2009.

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

	September 30, 2010				Total
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	
	(in thousands)				
Other unused commitments					
Home equity lines of credit	\$ -	\$ -	\$ -	\$ 4,004	\$ 4,004
Commercial lines of credit	22,142	835	-	11,627	34,604
Other lines of credit	80	39	-	10	129
Standby letters of credit	1,008	-	-	-	1,008
Total commitments	\$ 23,230	\$ 874	\$ -	\$ 15,641	\$ 39,745

Regulatory Capital Compliance

The Company owns all of the capital stock of the Bank. Federal banking regulations define, for each capital category, the levels at which institutions are “well capitalized,” “adequately capitalized,” or undercapitalized. A “well capitalized” institution has a total risk-based capital ratio of 10.0% or higher; a Tier I risk-based capital ratio of 6.0% or higher; and a leverage ratio of 5.0% or higher. At September 30, 2010, the Bank exceeded the “well capitalized” standards.

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The Bank's and the Company's capital amounts and ratios are presented in the following table along with the well capitalized requirement at the dates indicated:

	Tier-1 Capital to Adjusted Tangible Assets		Tier-1 Risk-Based Capital to Risk-Weighted Assets		Total Capital to Risk-Weighted Assets	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2010						
Bank:						
Regulatory capital	\$ 81,295	10.15 %	\$ 81,295	14.01 %	\$ 88,573	15.26 %
Adequately capitalized requirement	32,039	4.00 %	23,214	4.00 %	46,428	8.00 %
Well capitalized requirement	40,048	5.00 %	34,821	6.00 %	58,035	10.00 %
Consolidated regulatory capital	82,299	10.28 %	82,299	14.23 %	89,555	15.48 %
December 31, 2009						
Bank:						
Regulatory capital	\$ 78,463	9.72 %	\$ 78,463	13.30 %	\$ 85,855	14.55 %
Adequately capitalized requirement	32,300	4.00 %	23,600	4.00 %	47,201	8.00 %
Well capitalized requirement	40,375	5.00 %	35,401	6.00 %	59,001	10.00 %
Consolidated regulatory capital	79,801	9.89 %	79,801	13.41 %	87,256	14.67 %
September 30, 2009						
Bank:						
Regulatory capital	\$ 64,658	8.03 %	\$ 64,658	10.74 %	\$ 72,191	11.99 %
Adequately capitalized requirement	32,214	4.00 %	24,087	4.00 %	48,175	8.00 %
Well capitalized requirement	40,267	5.00 %	36,131	6.00 %	60,218	10.00 %
Consolidated regulatory capital	65,026	8.08 %	65,026	10.71 %	72,619	11.96 %

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Management believes that there have been no material changes in our quantitative and qualitative information about market risk since December 31, 2009. For a complete discussion of our quantitative and qualitative market risk, see "Item 7A. Quantitative and Qualitative Disclosure About Market Risk" in our 2009 Annual Report on Form 10-K, as amended.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We were 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 “Item 3. Legal Proceedings” in our 2009 Annual Report on Form 10-K, as amended. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on our results of operations or financial condition.

Item 1A. Risk Factors

There were no material changes to the risk factors as previously disclosed under Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2009, as amended, and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Reserved

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description of Exhibit
3.2	Bylaws of Pacific Premier Bancorp, Inc., as amended
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as Amended
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as Amended
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley act of 2002

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 5, 2010
Date

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

November 5, 2010
Date

By: /s/ Kent J. Smith
Kent J. Smith
Senior Vice President and Chief Financial Officer
(principal financial and accounting officer)

Index to Exhibits

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