PACIFIC PREMIER BANCORP INC
Form 10-Q
August 01, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _______ to _______

Commission File Number 0-22193

(Exact name of registrant as specified in its charter)

DELAWARE	33-0743196
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

17901 VON KARMAN AVENUE, SUITE 1200, IRVINE, CALIFORNIA 92614
(Address of principal executive offices and zip code)

(949) 864-8000
(Registrant’s telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of July 31, 2014 was 17,068,641.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX
FOR THE QUARTER ENDED JUNE 30, 2014

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)	June 30, 2013 (Unaudited)
Cash and due from banks	$ 120,016	$ 126,787	$ 103,946
Federal funds sold	276	26	26
Cash and cash equivalents	120,292	126,813	103,972
Investment securities available for sale	235,116	256,089	313,047
FHLB and other stock, at cost	18,494	15,450	11,917
Loans held for sale, net	-	3,147	3,617
Loans held for investment	1,466,768	1,240,123	1,055,430
Allowance for loan losses	(9,733)	(8,200)	(7,994)
Loans held for investment, net	1,457,035	1,231,923	1,047,436
	6,645	6,254	5,766

Accrued interest receivable			
Other real estate owned	752	1,186	1,186
Premises and equipment	9,344	9,864	9,997
Deferred income taxes	10,796	8,477	8,644
Bank owned life insurance	26,445	24,051	23,674
Intangible assets	6,121	6,628	7,135
Goodwill	22,950	17,428	18,234
Other assets	7,535	6,877	3,833
TOTAL ASSETS	$ 1,921,525	$ 1,714,187	$ 1,558,458
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Deposit accounts:			
Noninterest bearing	$ 410,843	$ 366,755	$ 345,063
Interest bearing	1,034,738	939,531	969,126
Total deposits	1,445,581	1,306,286	1,314,189
FHLB advances and other borrowings	255,287	204,091	48,082
Subordinated debentures	10,310	10,310	10,310
Accrued expenses and other liabilities	18,166	18,274	17,066
TOTAL LIABILITIES	1,729,344	1,538,961	1,389,647
STOCKHOLDERS' EQUITY:			
Common stock, $.01 par value; 25,000,000 shares authorized; 17,068,641 shares at June 30, 2014, 16,656,279 shares at December 31, 2013, and 16,635,786 shares at June 30, 2013 issued and outstanding	171	166	166
Additional paid-in capital	149,942	143,322	142,759
Retained earnings	42,090	34,815	27,545
Accumulated other comprehensive loss, net of tax benefit of ($16) at June 30,	(22)	(3,077)	(1,659)

2014, ($2,152) at December 31, 2013, and ($1,160) at June 30, 2013			
TOTAL STOCKHOLDERS' EQUITY	192,181	175,226	168,811
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,921,525	$ 1,714,187	$ 1,558,458

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
INTEREST INCOME				
Loans	$17,922	$13,688	$34,507	$27,084
Investment securities and other interest-earning assets	1,309	1,248	2,746	2,087
Total interest income	19,231	14,936	37,253	29,171
INTEREST EXPENSE				
Deposits	1,203	1,033	2,272	2,052
FHLB advances and other borrowings	255	238	498	478
Subordinated debentures	75	76	150	153
Total interest expense	1,533	1,347	2,920	2,683
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	17,698	13,589	34,333	26,488
PROVISION FOR LOAN LOSSES	1,030	322	1,979	618
NET INTEREST INCOME AFTER PROVISION FOR	16,668	13,267	32,354	25,870

LOAN LOSSES				
NONINTEREST INCOME				
Loan servicing fees	282	318	1,138	644
Deposit fees	463	457	917	897
Net gain from sales of loans	1,298	222	1,846	945
Net gain from sales of investment securities	98	1,068	160	1,068
Other-than-temporary impairment recovery (loss) on investment securities, net	10	(5)	23	(35)
Other income	320	371	439	636
Total noninterest income	2,471	2,431	4,523	4,155
NONINTEREST EXPENSE				
Compensation and benefits	6,485	5,687	13,376	10,784
Premises and occupancy	1,566	1,329	3,154	2,622
Data processing and communications	485	755	1,616	1,390
Other real estate owned operations, net	41	574	54	611
FDIC insurance premiums	266	196	503	336
Legal, audit and professional expense	385	249	978	844
Marketing expense	242	264	418	470
Office and postage expense	345	322	714	585
Loan expense	191	184	375	432
Deposit expense	747	515	1,508	675
Merger related expense	-	4,978	626	6,723
Other expense	888	803	1,860	1,563
Total noninterest expense	11,641	15,856	25,182	27,035
NET INCOME (LOSS) BEFORE INCOME TAX	7,498	(158)	11,695	2,990
INCOME TAX	2,855	91	4,420	1,267
NET INCOME (LOSS)	$4,643	$(249)	$7,275	$1,723
EARNINGS (LOSS) PER SHARE				

Basic	$0.28	$(0.02)	$0.43	$0.12
Diluted	$0.27	$(0.02)	$0.42	$0.11
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	17,124,337	15,516,537	17,083,194	14,939,179
Diluted	17,476,390	15,516,537	17,422,928	15,721,262

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$ 4,643	$ (249)	$ 7,275	$ 1,723
Other comprehensive income (loss), net of tax (benefit):				
Unrealized holding gains on securities arising during the period, net of income taxes (1)	1,120	(2,595)	3,149	(2,134)
Reclassification adjustment for net gain on sale of securities included in net income, net of income taxes (2)	(58)	(630)	(94)	(630)
Net unrealized gain on securities, net of income taxes	1,062	(3,225)	3,055	(2,764)
Comprehensive income	$ 5,705	$ (3,474)	$ 10,330	$ (1,041)

(1) Income taxes on the unrealized gains (losses) on securities was $741,000 for the three months ended June 30, 2014, ($2.3) million for the

three months ended June 30, 2013, $2.1 million for the six months ending June 30, 2014 and ($1.9) million for the first six months ending June 30, 2013.
(2) Income taxes on the reclassification adjustment for net gain on sale of securities included in net income was $40,000 for the three months ended June 30, 2014, $438,000 for the three months ended June 30, 2013, $66,000 for the six months ending June 30, 2014 and $438,000 for the six months ending June 30, 2013.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(dollars in thousands)
(unaudited)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2013	16,656,279	$ 166	$ 143,322	$ 34,815	$ (3,077)	$ 175,226
Net income				7,275		7,275
Other comprehensive income					3,055	3,055
Share-based compensation expense			257			257
Common stock repurchased and retired	(262,897)	(2)	(2,755)			(2,757)
Common stock issued	562,469	6	9,006			9,012
Stock options exercised	112,790	1	112			113
Balance at June 30, 2014	17,068,641	$ 171	$ 149,942	$ 42,090	$ (22)	$ 192,181
Balance at December 31, 2012	13,661,648	$ 137	$ 107,453	$ 25,822	$ 1,105	$ 134,517
Net income				1,723		1,723
Other comprehensive income					(2,764)	(2,764)

Share-based compensation expense			423			423
Common stock repurchased and retired	(3,666)	-	(22)			(22)
Common stock issued	2,972,472	29	34,895			34,924
Stock options exercised	5,332	-	10			10
Balance at June 30, 2013	16,635,786	$ 166	$ 142,759	$ 27,545	$ (1,659)	$ 168,811

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

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

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,275	$ 1,723
Adjustments to net income:		
Depreciation and amortization expense	1,088	904
Provision for loan losses	1,979	618
Share-based compensation expense	257	423
Loss on sale and disposal of premises and equipment	23	-
Loss on sale of other real estate owned	17	226
Write down of other real estate owned	-	354
Amortization of premium/discounts on securities held for sale, net	1,220	1,366
Amortization of loan mark-to-market	(1,167)	(1,529)

discount from FDIC transaction		
Loss from fair market value adjustment to loans held for sale	180	-
Gain on sale of investment securities available for sale	(160)	(1,068)
Other-than-temporary impairment loss (recovery) on investment securities, net	(23)	35
Gain on sale of loans held for investment	(1,846)	(945)
Recoveries on loans	55	229
Principal payments from loans held for sale	31	64
Deferred income tax provision	(2,319)	(1,757)
Change in accrued expenses and other liabilities, net	(595)	6,011
Income from bank owned life insurance, net	(394)	(282)
Change in accrued interest receivable and other assets, net	(2,754)	437
Net cash provided by operating activities	2,867	6,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and principal payments on loans held for investment	147,372	86,720
Net change in undisbursed loan funds	24,913	146,741
Purchase and origination of loans held for investment	(314,429)	(236,886)
Proceeds from sale of other real estate owned	777	1,488
Principal payments on securities available for sale	13,430	16,600

Purchase of securities available for sale	(66,274)	(6,208)
Proceeds from sale or maturity of securities available for sale	77,947	102,755
Investment in bank own life insurance	(2,000)	-
Purchases of premises and equipment	(517)	(1,055)
Purchase of Federal Reserve Bank stock	(506)	(1,276)
Redemption (purchase) of FHLB stock	(2,538)	1,259
Cash acquired (disbursed) in acquisitions, net	(7,793)	138,752
Net cash provided by (used in) investing activities	(129,618)	248,890
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposit accounts	139,295	(131,304)
Repayment of FHLB advances and other borrowings, net	(16,421)	(84,323)
Proceeds from issuance of common stock, net of issuance cost	-	4,560
Proceeds from exercise of stock options	113	10
Repurchase of common stock	(2,757)	(22)
Net cash provided by (used in) financing activities	120,230	(211,079)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,521)	44,620
CASH AND CASH EQUIVALENTS, beginning of period	126,813	59,352
	$ 120,292	$ 103,972

CASH AND CASH EQUIVALENTS, end of period

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

	Six Months Ended June 30, 2014	2013
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Interest paid	$ 2,924	$ 2,637
Income taxes paid	7,300	5,850
Assets acquired (liabilities assumed and capital created) in acquisitions (See Note 4):		
Investment securities	-	347,196
FHLB and TIB Stock	-	653
Loans	78,833	68,815
Core deposit intangible	-	4,766
Other real estate owned	-	752
Goodwill	5,522	18,234
Fixed assets	74	1,446
Other assets	702	7,800
Deposits	-	(540,725)
Other borrowings	(67,617)	(16,905)
Other liabilities	(709)	(6,276)
Additional paid-in capital	(9,012)	(30,364)
NONCASH INVESTING ACTIVITIES DURING THE PERIOD		
Transfers from loans to other real estate owned	$ 360	$ 244
Loans held for sale transfer to loans held for investment	$ 2,936	$ -

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

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014
(UNAUDITED)

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the “Corporation”) and its wholly owned subsidiaries, including Pacific Premier Bank (the “Bank”) (collectively, the “Company,” “we,” “our” or “us”). A 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 June 30, 2014, December 31, 2013, and June 30, 2013, the results of its operations and comprehensive income for the three and six months ended June 30, 2014 and 2013 and the changes in stockholders’ equity and cash flows for the six months ended June 30, 2014 and 2013. Operating results or comprehensive income for the three and six months ended June 30, 2014 are not necessarily indicative of the results or comprehensive income that may be expected for any other interim period or the full year ending December 31, 2014.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 Annual Report”).

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 operations.

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2014

In July 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-11,"Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The provisions of ASU No. 2013-11 require an entity to present an unrecognized tax benefit, or portion thereof, in the statement of financial position as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward, with certain exceptions related to availability. The Company adopted the provisions of ASU No. 2013-11 effective January 1, 2014. The adoption of ASU No. 2013-11 had no impact on the Company's Consolidated Financial Statements.

Accounting Standards Pending Adoption

In January 2014, the FASB issued ASU No. 2014-01,"Accounting for Investments in Qualified Affordable Housing Projects." ASU No. 2014-01 permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. This new guidance also requires new disclosures for all investors in these projects. ASU No. 2014-01 is effective for interim and annual reporting periods beginning after December 15, 2014. Upon adoption, the guidance must be applied retrospectively to all periods presented. However, entities that use the effective yield method to account for investments in these projects before adoption may continue to do so for these pre-existing investments. The Company currently accounts for such investments using the effective yield method and plans to continue to do so for these pre-existing investments after adopting ASU No. 2014-01 on January 1, 2015. The Company expects investments made after January 1, 2015 to meet the criteria required for the proportional amortization method and plans to make such an accounting policy election. The adoption of ASU No. 2014-01 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2014, the FASB issued ASU No. 2014-04,"Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

Note 3 – Significant Accounting Policies

Certain Acquired Loans: As part of business acquisitions, the Bank acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller’s allowance for loan losses. Such acquired loans are accounted for individually. The Bank estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan’s contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Goodwill and Core Deposit Intangible: Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate the necessity for such impairment tests to be performed. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible assets arising from whole bank acquisitions are amortized on an accelerated method over their estimated useful lives, which range from 6 to 10 years.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair value of stock-based compensation awards, the fair values of financial instruments and the status of contingencies are particularly subject to change.

Note 4 – Acquisitions

The Company accounted for the following transactions under the acquisition method of accounting which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of the core deposit intangible, securities and deposits with the assistance of third party valuations. The fair value of other real estate owned ("OREO") was based on recent appraisals of the properties.

The estimated fair values in these acquisitions are subject to refinement as additional information relative to the closing date fair values become available through the measurement period, which can extend for up to one year after the closing date of the transaction. While additional significant changes to the closing date fair values are not expected, any information relative to the changes in these fair values will be evaluated to determine if such changes are due to events and circumstances that existed as of the acquisition date. During the measurement period, any such changes will be recorded as part of the closing date fair value.

Infinity Franchise Holdings Acquisition

On January 30, 2014, the Company completed its acquisition of Infinity Franchise Holdings, LLC ("Infinity Holdings") and its wholly owned operating subsidiary Infinity Franchise Capital, LLC ("IFC" and together with Infinity Holdings, "IFH"), a national lender to franchisees in the quick service restaurant ("QSR") industry, and other direct and indirect subsidiaries utilized in its business. The value of the total consideration paid for the IFH acquisition was $17.4 million, which consisted of $8.3 million paid in cash and the issuance of 562,469 shares of the Corporation's stock, which was valued at $16.02 per share as measured by the 10-day average closing price immediately prior to closing of the transaction.

The acquisition of IFH is expected to further diversify our loan portfolio with commercial and industrial and owner-occupied commercial real estate loans, to deploy excess liquidity into higher yielding assets, to positively impact our net interest margin and to further leverage our strong capital base. The QSR franchisee lending business is a niche market that we believe provides attractive growth opportunities for the Company in the future. IFH had no delinquent loans or adversely classified assets as of the acquisition date; and the acquisition is expected to be accretive to our 2014 earnings per share.

Goodwill in the amount of $5.5 million was recognized in the IFH acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of IFH as of January 30, 2014 and the provisional fair value adjustments and amounts recorded by the Company in 2014 under the acquisition method of accounting:

	IFH Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$ 555	$ -	$ 555
Loans, gross	78,833	-	78,833
Deferred loan costs	1,082	(1,082)	-
Allowance for loan losses	(268)	268	-
Other assets	776	-	776
Total assets acquired	$ 80,978	$ (814)	$ 80,164
LIABILITIES ASSUMED			
Bank loan	$ 67,617	$ -	$ 67,617
Accrued compensation	495	-	495
Other liabilities	214	-	214
Total liabilities assumed	68,326	-	68,326
Excess of assets acquired over liabilities assumed	$ 12,652	$ (814)	11,838
Consideration paid			17,360
Goodwill recognized			$ 5,522

San Diego Trust Bank Acquisition

On June 25, 2013, the Company completed its acquisition of San Diego Trust Bank ("SDTB") in exchange for consideration valued at $30.6 million which consisted of $16.2 million of cash and 1,198,255 shares of the Corporation's common stock.

SDTB was a San Diego, California based state-chartered bank. The acquisition was an opportunity for the Company to acquire a banking network that complemented our existing banking franchise and expanded into a new market area. Additionally, the SDTB acquisition improved the Company's deposit base by lowering our cost of deposits and providing an opportunity to accelerate future core deposit growth in the San Diego, California, market area.

Goodwill in the amount of $5.6 million was recognized in the SDTB acquisition. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of SDTB as of June 25, 2013 and the provisional fair value adjustments and amounts recorded by the Company in 2013 under the acquisition method of accounting:

	SDTB Book Value	Fair Value Adjustments	Fair Value
	(dollars in thousands)		
ASSETS ACQUIRED			
Cash and cash equivalents	$ 30,252	$ -	$ 30,252
Investment securities	124,960	(155)	124,805
Loans, gross	42,945	(223)	42,722
Allowance for loan losses	(1,013)	1,013	-
Other real estate owned	752	-	752
Core deposit intangible	-	2,836	2,836
Other assets	9,856	-	9,856
Total assets acquired	$ 207,752	$ 3,471	$ 211,223
LIABILITIES ASSUMED			
Deposits	$ 183,901	$ 6	$ 183,907
Deferred tax liability (asset)	(333)	1,507	1,174
Other liabilities	1,823	(729)	1,094
Total liabilities assumed	185,391	784	186,175
Excess of assets acquired over liabilities assumed	$ 22,361	$ 2,687	25,048
Consideration paid			30,622
Goodwill recognized			$ 5,574

First Association Bank Acquisition

On March 15, 2013, the Company completed its acquisition of First Association Bank ("FAB") in exchange for consideration valued as of the closing at $57.9 million which consisted of $43.0 million of cash and 1,279,217 shares of the Corporation's common stock.

FAB was a Dallas, Texas, based bank which specialized in providing commercial banking services to home owner association ("HOA") management companies throughout the United States. The FAB acquisition was an opportunity for the Company to acquire a highly efficient, consistently profitable and niche-focused business that complimented our banking franchise. Additionally, this acquisition improved the Company's deposit base by lowering our cost of deposits and providing a platform to accelerate future core deposit growth from HOAs.

Goodwill in the amount of $11.9 million was recognized in the FAB acquisition. Goodwill recognized in this transaction is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of FAB as of March 15, 2013, the provisional fair value adjustments and amounts recorded by the Company in 2013 under the acquisition method of accounting:

	FAB Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED		(dollars in thousands)	
Cash and cash equivalents	$ 167,663	$ -	$ 167,663
Investment securities	219,913	2,478	222,391
Loans, gross	26,264	158	26,422
Allowance for loan losses	(224)	224	-
Core deposit intangible	-	1,930	1,930
Other assets	5,823	-	5,823
Total assets acquired	$ 419,439	$ 4,790	$ 424,229
LIABILITIES ASSUMED			
Deposits	$ 356,737	$ 81	$ 356,818
Borrowings	16,905	-	16,905
Deferred tax liability	-	3,918	3,918
Other Liabilities	536	-	536
Total liabilities	374,178	3,999	378,177

assumed			
Excess of assets acquired over liabilities assumed	$ 45,261	$ 791	46,052
Consideration paid			57,906
Goodwill recognized			$ 11,854

There were no purchased credit impaired loans acquired from FAB, SDTB or IFH. For loans acquired from FAB, SDTB and IFH, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows:

	Acquired Loans		
	FAB	SDTB	IFH
	(dollars in thousands)		
Contractual amounts due	$ 32,107	$ 47,251	$ 98,320
Cash flows not expected to be collected	-	-	-
Expected cash flows	32,107	47,251	98,320
Interest component of expected cash flows	5,685	4,529	19,487
Fair value of acquired loans	$ 26,422	$ 42,722	$ 78,833

In accordance with generally accepted accounting principles, there was no carryover of the allowance for loan losses that had been previously recorded by FAB, SDTB or IFH.

The operating results of the Company for the six months ending June 30, 2014 include the operating results of FAB, SDTB and IFH since their respective acquisition dates. The following table presents the net interest and other income, net income and earnings per share as if the acquisitions of FAB, SDTB and IFH were effective as of January 1, 2014 and 2013. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

	Six months Ended June 30, 2014	2013
Net interest and other income	$38,891	$35,903
Net income	$6,894	$1,961
Basic earnings per share	$0.40	$0.11
Diluted earnings per share	$0.40	$0.10

Note 5 – Investment Securities

The amortized cost and estimated fair value of securities were as follows:

June 30, 2014	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
Municipal bonds	$ 84,576	$ 1,211	$ (354)	$ 85,433
Mortgage-backed securities	150,578	230	(1,125)	149,683
Total securities available for sale	$ 235,154	$ 1,441	$ (1,479)	$ 235,116

December 31, 2013	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				

U.S. Treasury	$ 73	$ 8	$ -	$ 81
Municipal bonds	95,388	589	(1,850)	94,127
Mortgage-backed securities	165,857	12	(3,988)	161,881
Total securities available for sale	$ 261,318	$ 609	$ (5,838)	$ 256,089

	June 30, 2013			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
	(in thousands)			
Investment securities available for sale:				
U.S. Treasury	$ 73	$ 10	$ -	$ 83
Corporate	9,169	-	-	9,169
Municipal bonds	96,257	226	(1,736)	94,747
Mortgage-backed securities	210,367	736	(2,055)	209,048
Total securities available for sale	$ 315,866	$ 972	$ (3,791)	$ 313,047

At June 30, 2014, the Company had $10.0 million in Federal Home Loan Bank ("FHLB") stock, $3.9 million in Federal Reserve Bank ("FRB") stock, and $4.5 million in other stock, all carried at cost. During the six months ended June 30, 2014, the FHLB has repurchased $1.4 million of the Company's excess FHLB stock through its stock repurchase program.

At June 30, 2014, mortgage-backed securities ("MBS") with an estimated par value of $67.0 million and a fair value of $69.5 million were pledged as collateral for the Bank's three reverse repurchase agreements which totaled $28.5 million and HOA reverse repurchase agreements which totaled $16.8 million.

The table below shows the number, fair value and gross unrealized holding losses of the Company's investment securities by investment category and length of time that the securities have been in a continuous loss position.

	June 30, 2014								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	27	$14,011	$(143)	44	$18,316	$(211)	71	$32,327	$(354)
Mortgage-backed securities	11	37,316	(109)	12	52,235	(1,016)	23	89,551	(1,125)
Total	38	$51,327	$(252)	56	$70,551	$(1,227)	94	$121,878	$(1,479)

	December 31, 2013								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	133	$61,524	$(1,850)	-	$-	$-	133	$61,524	$(1,850)
Mortgage-backed securities	45	140,704	(3,075)	1	12,607	(913)	46	153,311	(3,988)
Total	178	$202,228	$(4,925)	1	$12,607	$(913)	179	$214,835	$(5,838)

	June 30, 2013								
	Less than 12 months			12 months or Longer			Total		
	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses	Number	Fair Value	Gross Unrealized Holding Losses
	(dollars in thousands)								
Municipal bonds	122	$51,937	$(1,736)	-	$-	$-	122	$51,937	$(1,736)
Mortgage-backed securities	29	86,940	(1,916)	17	713	(138)	46	87,653	(2,054)
Total	151	$138,877	$(3,652)	17	$713	$(138)	168	$139,590	$(3,790)

The amortized cost and estimated fair value of investment securities available for sale at June 30, 2014, by contractual maturity are shown in the table below.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)									
Investment securities available for sale:										
Municipal bonds	$-	$-	$12,575	$12,594	$36,947	$37,191	$35,054	$35,648	$84,576	$85,433
Mortgage-backed securities	-	-	-	-	23,827	23,756	126,751	125,927	150,578	149,683
Total investment securities available for sale	-	-	12,575	12,594	60,774	60,947	161,805	161,575	235,154	235,116

Any temporary impairment is a result of the change in market interest rates and not the underlying issuers' ability to repay. The Company has the intent and ability to hold these securities until the temporary impairment is eliminated. Accordingly, the Company has not recognized the temporary impairment in earnings.

Unrealized gains and losses on investment securities available for sale are recognized in stockholders' equity as accumulated other comprehensive income or loss. At June 30, 2014, the Company had accumulated other comprehensive loss of $38,000, or $22,000 net of tax, compared to accumulated other comprehensive loss of $5.2 million, or $3.1 million net of tax, at December 31, 2013.

Note 6 – Loans Held for Investment

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

	June 30, 2014	December 31, 2013 (in thousands)	June 30, 2013
Business loans:			
Commercial and industrial	$ 319,541	$ 187,035	$ 146,240
Commercial owner occupied (1)	216,784	221,089	201,802
SBA	15,115	10,659	5,820
Warehouse facilities	114,032	87,517	135,317
Real estate loans:			
Commercial non-owner occupied	360,288	333,544	295,767
Multi-family	251,512	233,689	172,797
One-to-four family (2)	132,020	145,235	84,672
Construction	47,034	13,040	2,135
Land	6,271	7,605	10,438
Other loans	3,753	3,839	4,969
Total gross loans (3)	1,466,350	1,243,252	1,059,957
Less loans held for sale, net	-	(3,147)	(3,617)
Total gross loans held for investment	1,466,350	1,240,105	1,056,340
Less:			
Deferred loan origination costs (fees)	418	18	(910)

and premiums (discounts), net			
Allowance for loan losses	(9,733)	(8,200)	(7,994)
Loans held for investment, net	$ 1,457,035	$ 1,231,923	$ 1,047,436

(1) Majority secured by real estate.
(2) Includes second trust deeds.
(3) Total gross loans for June 30, 2014 are net of (i) the unaccreted mark-to-market discounts on Canyon National Bank ("Canyon National") loans of $1.6 million, on Palm Desert National Bank ("Palm Desert National") loans of $2.0 million, and on SDTB loans of $143,000 and (ii) the mark-to-market premium on FAB loans of $41,000.

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

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

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank’s unimpaired capital plus surplus and likewise in excess of 15% for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of $51.5 million for secured loans and $30.9 million for unsecured loans at June 30, 2014. At June 30, 2014, the Bank’s largest aggregate outstanding balance of loans to one borrower was $34.4 million of secured credit.

Purchased Credit Impaired

The following table provides a summary of the Company’s investment in purchased credit impaired loans, acquired from Canyon National and Palm Desert National, as of the period indicated:

	June 30, 2014		
	Canyon National	Palm Desert National	Total
	(in thousands)		
Business loans:			

Commercial and industrial	$ 85	$ -	$ 85
Commercial owner occupied	559	-	559
Real estate loans:			
Commercial non-owner occupied	982	-	982
One-to-four family	-	11	11
Total purchase credit impaired	$ 1,626	$ 11	$ 1,637

On the acquisition date, the amount by which the undiscounted expected cash flows of the purchased credit impaired loans exceed the estimated fair value of the loan is the "accretable yield." The accretable yield is measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the purchased credit impaired loan. At June 30, 2014, the Company had $1.6 million of purchased credit impaired loans, none of which were placed on nonaccrual status.

The following table summarizes the accretable yield on the purchased credit impaired for the six months ended June 30, 2014:

	Six Months Ended June 30, 2014		
	Canyon National	Palm Desert National	Total
		(in thousands)	
Balance at the beginning of period	$ 1,623	$ 53	$ 1,676
Accretion	(130)	(1)	(131)
Disposals and other	(17)	-	(17)
Change in accretable yield	-	-	-
Balance at the end of period	$ 1,476	$ 52	$ 1,528

Impaired Loans

The following tables provide a summary of the Company's investment in impaired loans as of the period indicated:

	Impaired Loans						
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
June 30, 2014							
Business loans:							
Commercial and industrial	$ 59	$ 24	$ -	$ 24	$ -	$ 18	$ -
Commercial owner occupied	444	417	-	417	-	627	25
SBA	-	-	-	-	-	9	-
Real estate loans:							
Commercial non-owner occupied	708	514	-	514	-	938	21
One-to-four family	625	575	270	305	104	591	15
Totals	$ 1,836	$ 1,530	$ 270	$ 1,260	$ 104	$ 2,183	$ 61

	Impaired Loans						
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
December 31, 2013							
Business loans:							
Commercial and industrial	$ -	$ -	$ -	$ -	$ -	$ 255	$ 17
Commercial owner occupied	872	747	-	747	-	177	66
SBA	246	14	-	14	-	70	28
Real estate loans:							

Commercial non-owner occupied	1,202	983	28	955	1	984	68
Multi-family	-	-	-	-	-	108	2
One-to-four family	746	683	278	405	104	743	44
Totals	$ 3,066	$ 2,427	$ 306	$ 2,121	$ 105	$ 2,337	$ 225

	Impaired Loans						
	Contractual Unpaid Principal Balance	Recorded Investment	With Specific Allowance	Without Specific Allowance	Specific Allowance for Impaired Loans	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
June 30, 2013							
Business loans:							
Commercial and industrial	$ 423	$ 308	$ 233	$ 76	$ 233	$ 454	$ 19
Commercial owner occupied	-	-	-	-	-	122	-
SBA	-	-	-	-	-	84	1
Real estate loans:							
Commercial non-owner occupied	531	450	-	450	-	1,254	3
Multi-family	1,046	1,035	-	1,035	-	217	2
One-to-four family	836	813	501	312	360	837	26
Totals	$ 2,836	$ 2,606	$ 734	$ 1,873	$ 593	$ 2,968	$ 51

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

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

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

	June 30, 2014	December 31, 2013	June 30, 2013
	(in thousands)		
Nonaccruing loans	$1,345	$ 2,239	$1,969
Accruing loans	185	188	637
Total impaired loans	$1,530	$ 2,427	$2,606

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

The Company does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the collection of interest. The Company had impaired loans on nonaccrual status of $1.3 million at June 30, 2014, $2.2 million at December 31, 2013, and $2.0 million at June 30, 2013. The Company had no loans 90 days or more past due and still accruing at June 30, 2014, December 31, 2013 or June 30, 2013.

The Company had no TDRs during the quarter ended June 30, 2014 and had one immaterial TDR outstanding related to a U.S. Small Business Administration ("SBA") loan.

Concentration of Credit Risk

As of June 30, 2014, the Company's loan portfolio was collateralized by various forms of real estate and business assets located principally in California. The Company's loan portfolio contains concentrations of credit in multi-family real estate, commercial non-owner occupied real estate and commercial owner occupied business loans. The Bank maintains policies approved by the Bank's Board of Directors (the "Bank Board") that address these concentrations and continues to diversify its loan portfolio through loan originations, purchases and sales to meet approved concentration levels. While management believes that the collateral presently securing these loans is adequate, there can be no assurances that a significant deterioration in the California real estate market or economy would not expose the Company to significantly greater credit risk.

Credit Quality and Credit Risk Management

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

The Company maintains a comprehensive credit policy which sets forth minimum and maximum tolerances for key elements of loan risk. The policy identifies and sets forth specific guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio wide basis. The credit policy is reviewed annually by the

Bank Board. The Bank's seasoned underwriters ensure all key risk factors are analyzed with nearly all underwriting including a comprehensive global cash flow analysis of the prospective borrowers. The credit approval process mandates multiple-signature approval by the management credit committee for every loan that requires any subjective credit analysis.

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

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

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

- Pass classifications represent assets with a level of credit quality which contain no well-defined deficiency or weakness.
- Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiency or potential weaknesses deserving management's close attention.
    - Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. OREO acquired from foreclosure is also classified as substandard.
- Doubtful credits have all the weaknesses inherent in substandard credits, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

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

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

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

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
June 30, 2014	(in thousands)			
Business loans:				
Commercial and industrial	$317,713	$-	$1,828	$319,541
Commercial owner occupied	206,890	393	9,501	216,784
SBA	15,115	-	-	15,115
Warehouse facilities	114,032	-	-	114,032
Real estate loans:				
Commercial non-owner occupied	355,878	-	4,410	360,288
Multi-family	250,494	506	512	251,512
One-to-four family	131,330	-	690	132,020
Construction	47,034	-	-	47,034
Land	6,271	-	-	6,271
Other loans	3,753	-	-	3,753
Totals	$1,448,510	$899	$16,941	$1,466,350

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
December 31, 2013	(in thousands)			
Business loans:				
Commercial and industrial	$184,247	$12	$2,776	$187,035
Commercial owner occupied	207,872	1,217	12,000	221,089
SBA	10,659	-	-	10,659
Warehouse facilities	87,517	-	-	87,517

Real estate loans:				
Commercial non-owner occupied	329,538	352	3,654	333,544
Multi-family	232,661	511	517	233,689
One-to-four family	144,152	-	1,083	145,235
Construction	13,040	-	-	13,040
Land	7,605	-	-	7,605
Other loans	3,834	-	5	3,839
Totals	$1,221,125	$2,092	$20,035	$1,243,252

	Credit Risk Grades			
	Pass	Special Mention	Substandard	Total Gross Loans
June 30, 2013	(in thousands)			
Business loans:				
Commercial and industrial	$143,034	$88	$3,118	$146,240
Commercial owner occupied	186,271	2,298	13,233	201,802
SBA	5,820	-	-	5,820
Warehouse facilities	135,317	-	-	135,317
Real estate loans:				
Commercial non-owner occupied	289,210	356	6,201	295,767
Multi-family	170,726	515	1,556	172,797
One-to-four family	83,395	-	1,277	84,672
Construction	2,135	-	-	2,135
Land	10,430	-	8	10,438
Other loans	4,960	-	9	4,969
Totals	$1,031,298	$3,257	$25,402	$1,059,957

The following tables set forth delinquencies in the Company’s loan portfolio at the dates indicated:

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
June 30, 2014	(in thousands)					

Business loans:						
Commercial and industrial	$ 319,418	$ -	$ 99	$ 24	$ 319,541	$ 24
Commercial owner occupied	216,367	-	417	-	216,784	549
SBA	15,115	-	-	-	15,115	-
Warehouse facilities	114,032	-	-	-	114,032	-
Real estate loans:						
Commercial non-owner occupied	360,288	-	-	-	360,288	910
Multi-family	251,512	-	-	-	251,512	-
One-to-four family	131,258	236	478	48	132,020	458
Construction	47,034	-	-	-	47,034	-
Land	6,271	-	-	-	6,271	-
Other loans	3,753	-	-	-	3,753	-
Totals	$ 1,465,048	$ 236	$ 994	$ 72	$ 1,466,350	$ 1,941

		Days Past Due				Non-
	Current	30-59	60-89	90+	Total	Accruing
December 31, 2013			(in thousands)			
Business loans:						
Commercial and industrial	$ 187,035	$ -	$ -	$ -	$ 187,035	$ -
Commercial owner occupied	219,875	768	-	446	221,089	747
SBA	10,645	-	-	14	10,659	14
Warehouse facilities	87,517	-	-	-	87,517	-
Real estate loans:						
Commercial non-owner occupied	332,984	-	-	560	333,544	983
Multi-family	233,689	-	-	-	233,689	-
One-to-four family	145,041	71	-	123	145,235	507
Construction	13,040	-	-	-	13,040	-
Land	7,605	-	-	-	7,605	-
Other loans	3,709	130	-	-	3,839	-
Totals	$ 1,241,140	$ 969	$ -	$ 1,143	$ 1,243,252	$ 2,251

	Current	Days Past Due 30-59	60-89	90+	Total	Non-Accruing
June 30, 2013			(in thousands)			
Business loans:						
Commercial and industrial	$ 146,000	$ 7	$ 233	$ -	$ 146,240	$ 96
Commercial owner occupied	201,162	640	-	-	201,802	-
SBA	5,795	-	25	-	5,820	-
Warehouse facilities	135,317	-	-	-	135,317	-
Real estate loans:						
Commercial non-owner occupied	295,767	-	-	-	295,767	450
Multi-family	171,762	-	-	1,035	172,797	1,035
One-to-four family	84,290	22	322	38	84,672	451
Construction	2,135	-	-	-	2,135	-
Land	10,438	-	-	-	10,438	-
Other loans	4,969	-	-	-	4,969	-
Totals	$ 1,057,635	$ 669	$ 580	$ 1,073	$ 1,059,957	$ 2,032

Note 7 – Allowance for Loan Losses

The Company’s ALLL covers estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of the loan portfolio. The ALLL is prepared using the information provided by the Company’s credit and investment review process together with data from peer institutions and economic information gathered from published sources.

The loan portfolio is segmented into groups of loans with similar risk characteristics. Each segment possesses varying degrees of risk based on, among other things, the type of loan, the type of collateral, and the sensitivity of the borrower or industry to changes in external factors such as economic conditions. An estimated loss rate calculated using the Company’s actual historical loss rates adjusted for current portfolio trends, economic conditions, and other relevant internal and external factors, is applied to each group’s aggregate loan balances.

The following provides a summary of the ALLL calculation for the major segments within the Company’s loan portfolio.

Owner Occupied Commercial Real Estate Loans, Commercial and Industrial Loans and SBA Loans

The Company's base ALLL factor for owner occupied commercial real estate loans, commercial business loans and SBA loans is determined by management using the Bank's actual trailing 36 month, 24 month, trailing 12 month and annualized trailing six month charge-off data. Adjustments to those base factors are made for relevant internal and external factors. For owner occupied commercial real estate loans, commercial business loans and SBA loans, those factors include:

- Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment,
- Changes in the nature and volume of the loan portfolio, including new types of lending,
- Changes in volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans, and
- The existence and effect of concentrations of credit, and changes in the level of such concentrations.

The resulting total ALLL factor is compared for reasonableness against the 10-year average, 15-year average, and trailing 12 month total charge-off data for all Federal Deposit Insurance (“FDIC”) insured commercial banks and savings institutions based in California. This factor is applied to balances graded pass-1 through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management’s judgment, taking into consideration the specific characteristics of the Bank’s portfolio and analysis of results from a select group of the Company’s peers.

Multi-Family and Non-Owner Occupied Commercial Real Estate Loans

The Company's base ALLL factor for multi-family and non-owner occupied commercial real estate loans is determined by management using the Bank's actual trailing 36 month, 24 month, trailing 12 month and annualized trailing six month charge-off data. Adjustments to those base factors are made for relevant internal and external factors. For multi-family and non-owner occupied commercial real estate loans, those factors include:

- Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment,
- Changes in volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans, and
- The existence and effect of concentrations of credit, and changes in the level of such concentrations.

The resulting total ALLL factor is compared for reasonableness against the 10-year average, 15-year average, and trailing 12 month total charge-off data for all FDIC-insured commercial banks and savings institutions based in California. This factor is applied to balances graded pass-1 through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management’s judgment, taking into consideration the specific characteristics of the Bank’s portfolio and analysis of results from a select group of the Company’s peers.

One-to-Four Family and Consumer Loans

The Company's base ALLL factor for one-to-four family and consumer loans is determined by management using the Bank's actual trailing 36 month, trailing 24 month, trailing 12 month and annualized trailing six month charge-off data. Adjustments to those base factors are made for relevant internal and external factors. For one-to-four family and consumer loans, those factors include:

- Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment, and
-

Changes in volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans.

The resulting total ALLL factor is compared for reasonableness against the 10-year average, 15-year average, and trailing 12 month total charge-off data for all FDIC-insured commercial banks and savings institutions based in California. This factor is applied to balances graded pass-1 through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management’s judgment, taking into consideration the specific characteristics of the Bank’s portfolio and analysis of results from a select group of the Company’s peers.

Warehouse Facilities

The Company's warehouse facilities are structured as repurchase facilities, whereby we purchase funded one-to-four family loans on an interim basis. Therefore, the base ALLL factor for warehouse facilities is equal to that for one-to-four family and consumer loans as discussed above. Adjustments to the base factor are made for relevant internal and external factors. Those factors include:

· Changes in national, regional and local economic conditions, including trends in real estate values and the interest rate environment,

· Changes in the nature and volume of the loan portfolio, including new types of lending, and

· The existence and effect of concentrations of credit, and changes in the level of such concentrations.

The resulting total ALLL factor is compared for reasonableness against the 10-year average, 15-year average, and trailing 12 month total charge-off data for one-to-four family loans for all FDIC-insured commercial banks and savings institutions based in California. This factor is applied to balances graded pass-1 through pass-5. For loans risk graded as watch or worse, progressively higher potential loss factors are applied based on management’s judgment, taking into consideration the specific characteristics of the Bank’s portfolio and analysis of results from a select group of the Company’s peers.

The following tables summarize the allocation of the ALLL as well as the activity in the ALLL attributed to various segments in the loan portfolio as of and for the three months ended for the periods indicated:

	Commercial and industrial	Commercial owner occupied	SBA	Warehouse	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Land	Other loans	T
					(dollars in thousands)						
er 31,	$1,968	$1,818	$151	$392	$1,658	$817	$1,099	$136	$127	$34	$8,2
ffs	(124)	-	-	-	(365)	-	(12)	-	-	-	(50
es	21	-	3	-	-	-	30	-	-	1	55
ns for n in) es	1,036	(72)	110	64	698	120	(299)	391	(60)	(9)	1,9
June	$2,901	$1,746	$264	$456	$1,991	$937	$818	$527	$67	$26	$9,7

of e d to:											
lly d loans	$-	$-	$-	$-	$-	$-	$104	$-	$-	$-	$104
n	2,901	1,746	264	456	1,991	937	714	527	67	26	9,62
lly d for ent	24	417	-	-	514	-	575	-	-	-	1,5
to ns lly d for ent	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	18.09 %	0.00 %	0.00 %	0.00 %	6.8
ely d for ent	$319,517	$216,367	$15,115	$114,032	$359,774	$251,512	$131,445	$47,034	$6,271	$3,753	$1,4
to ns ely d for ent	0.91 %	0.81 %	1.75 %	0.40 %	0.55 %	0.37 %	0.54 %	1.12 %	1.07 %	0.69 %	0.6
oss	$319,541	$216,784	$15,115	$114,032	$360,288	$251,512	$132,020	$47,034	$6,271	$3,753	$1,4
e to ns	0.91 %	0.81 %	1.75 %	0.40 %	0.55 %	0.37 %	0.62 %	1.12 %	1.07 %	0.69 %	0.6

	Commercial and industrial	Commercial owner occupied	SBA	Warehouse	Commercial non-owner occupied	Multi-family	One-to-four family	Construction	Land	Other loans	T
					(dollars in thousands)						
er 31,	$1,310	$1,512	$79	$1,544	$1,459	$1,145	$862	$-	$31	$52	$7,9
offs	(58)	-	(5)	-	(757)	(11)	(10)	-	-	(6)	(84
es	21	-	44	-	-	-	44	-	-	120	229
ns for n in) es	806	229	(50)	(844)	806	(593)	243	-	149	(128)	618

June	$2,079	$1,741	$68	$700	$1,508	$541	$1,139	$-	$180	$38	$7,99
of e d to:											
lly d loans	$233	$-	$-	$-	$-	$-	$360	$-	$-	$-	$593
n	1,846	1,741	68	700	1,508	541	779	-	180	38	7,40
lly d for ent	308	-	-	-	450	1,035	813	-	-	-	2,60
to s lly d for ent	75.65 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	44.28 %	0.00 %	0.00 %	0.00 %	22.7
ely d for ent	$145,932	$201,802	$5,820	$135,317	$295,317	$171,762	$83,859	$2,135	$10,438	$4,969	$1,0
to s ely d for ent	1.26 %	0.86 %	1.17 %	0.52 %	0.51 %	0.31 %	0.93 %	0.00 %	1.72 %	0.76 %	0.70
ss	$146,240	$201,802	$5,820	$135,317	$295,767	$172,797	$84,672	$2,135	$10,438	$4,969	$1,0
e to ns	1.42 %	0.86 %	1.17 %	0.52 %	0.51 %	0.31 %	1.35 %	0.00 %	1.72 %	0.76 %	0.7

Note 8 – Subordinated Debentures

In March 2004, the Corporation issued $10.3 million of Floating Rate Junior Subordinated Deferrable Interest Debentures (the “Subordinated Debentures”) to PPBI Trust I, which funded the payment of $10.0 million of Floating Rate Trust Preferred Securities (“Trust Preferred Securities”) issued by PPBI Trust I in March 2004. The net proceeds from the offering of Trust Preferred Securities were contributed as capital to the Bank to support further growth. Interest is payable quarterly on the Subordinated Debentures at three-month LIBOR plus 2.75% per annum, for an effective rate of 2.98% per annum as of June 30, 2014.

The Corporation is not allowed to consolidate PPBI Trust I into the Company's consolidated financial statements. The resulting effect on the Company's consolidated financial statements is to report only the Subordinated Debentures as a component of the Company's liabilities.

Note 9 – Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period, excluding common shares in treasury. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted from the issuance of common stock that would then share in earnings and excludes common shares in treasury. Stock options exercisable for shares of common stock are excluded from the computation of diluted earnings per share if they are anti-dilutive due to their exercise price exceeding the average market price during the period.

The impact of stock options which are anti-dilutive are excluded from the computations of diluted earnings per share. The dilutive impact of these securities could be included in future computations of diluted earnings per share if the market price of the common stock increases. The following table sets forth the number of stock options excluded for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options excluded	606,894	61,870	605,146	81,919

The following tables set forth the Company's unaudited earnings per share calculations for the periods indicated:

	Three Months Ended June 30,					
	2014			2013		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)					
Net income	$ 4,643			$ (249)		
Basic income available to common stockholders	4,643	17,124,337	$ 0.28	(249)	15,516,537	$ (0.02)
Effect of dilutive stock options	-	352,053		-	-	
Diluted income available to common stockholders	$ 4,643	17,476,390	$ 0.27	$ (249)	15,516,537	$ (0.02)

plus assumed conversions

	Six Months Ended June 30, 2014			2013		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(dollars in thousands, except per share data)					
Net income	$ 7,275			$ 1,723		
Basic income available to common stockholders	7,275	17,083,194	$ 0.43	1,723	14,939,179	$ 0.12
Effect of dilutive stock options	-	339,734		-	782,083	
Diluted income available to common stockholders plus assumed conversions	$ 7,275	17,422,928	$ 0.42	$ 1,723	15,721,262	$ 0.11

Note 10 – Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Financial instruments are considered Level 1 when the valuation is based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. The following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at June 30, 2014, December 31, 2013 and June 30, 2013:

Cash and due from banks – The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Securities Available for Sale – 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, US government bonds and securities issued by federally sponsored agencies. 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 classifies securities that reflect other-than-temporary impairments ("OTTI") based on a discounted cash flow of the security or a determination of fair value that requires significant management judgment or consideration.

FHLB, FRB, Other Stock – The carrying value approximates the fair value based upon the redemption provisions of the stock and are classified as Level 1.

Loans Held for Sale - The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted price exists, the fair value of a loan is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan. Loans held for sale are classified as Level 2.

Loans Held for Investment— The fair value of loans, other than loans on nonaccrual status, was estimated by discounting the remaining contractual cash flows using the estimated current rate at which similar loans would be made to borrowers with similar credit risk characteristics and for the same remaining maturities, reduced by deferred net loan origination fees and the allocable portion of the allowance for loan losses. Accordingly, in determining the estimated current rate for discounting purposes, no adjustment has been made for any change in borrowers' credit risks since the origination of such loans. Rather, the allocable portion of the allowance for loan losses is considered to provide for such changes in estimating fair value. As a result, this fair value is not necessarily the value which would be derived using an exit price. These loans are included within Level 3 of the fair value hierarchy. The carrying amount of accrued interest receivable approximates its fair value as a Level 1 classification.

OREO – OREO assets are recorded at the fair value less estimated costs to sell at the time of foreclosure. The fair value of OREO assets is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Accrued Interest Receivable/Payable – The carrying amount approximates fair value and is classified as Level 1.

Deposit Accounts— The fair values estimated for demand deposits (interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts) resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of the aggregate expected monthly maturities on time deposits in a Level 2 classification. The carrying amount of accrued interest payable approximates its fair value as a Level 1 classification.

FHLB Advances and Other Borrowings— For these instruments, the fair value of short term borrowings is estimated to be the carrying amount and is classified as Level 1. The fair value of long term borrowings and debentures is determined using rates currently available for similar borrowings or debentures with similar credit risk and for the remaining maturities and are classified as Level 2. The carrying amount of accrued interest payable approximates its fair value as a Level 1 classification.

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 and is classified as Level 2.

Off-Balance Sheet Commitments and Standby Letters of Credit – The majority of the Bank's commitments to extend credit carry current market interest rates if converted to loans. Because these commitments are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. 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 and is classified as Level 2.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The fair value estimates presented herein are based on pertinent information available to management as of the periods indicated.

	At June 30, 2014				
	Carrying Amount	Level 1	Level 2 (in thousands)	Level 3	Estimated Fair Value
Assets:					
Cash and cash equivalents	$ 120,292	$ 120,292	$ -	$ -	$ 120,292
Securities available for sale	235,116	-	235,116	-	235,116
Federal Reserve Bank, TIB and FHLB stock, at cost	18,494	18,494	-	-	18,494
Loans held for investment, net	1,457,035	-	-	1,461,796	1,461,796
Accrued interest receivable	6,645	6,645	-	-	6,645
Other real estate owned	752	-	-	752	752
Liabilities:					
Deposit accounts	1,445,581	1,102,419	371,132	-	1,473,551
FHLB advances	210,000	210,000	-	-	210,000
Other borrowings	45,287	-	47,538	-	47,538
	10,310	-	4,592	-	4,592

Subordinated debentures					
Accrued interest payable	177	177	-	-	177

	Notional Amount	Level 1	Level 2	Level 3	Cost to Cede or Assume
Off-balance sheet commitments and standby letters of credit	$ 293,228	$ -	$ 29,323	$ -	$ 29,323

	At December 31, 2013				
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
			(in thousands)		
Assets:					
Cash and cash equivalents	$ 126,813	$ 126,813	$ -	$ -	$ 126,813
Securities available for sale	256,089	-	256,089	-	256,089
Federal Reserve Bank and FHLB stock, at cost	15,450	15,450	-	-	15,450
Loans held for sale, net	3,147	-	3,147	-	3,147
Loans held for investment, net	1,231,923	-	-	1,230,316	1,230,316
Accrued interest receivable	6,254	6,254	-	-	6,254
Other real estate owned	1,186	-	-	1,186	1,186
Liabilities:					
Deposit accounts	1,306,286	991,630	301,007	-	1,292,637
FHLB advances	156,000	156,000	-	-	156,000
Other borrowings	48,091	-	49,058	-	49,058
Subordinated debentures	10,310	-	4,696	-	4,696
	166	166	-	-	166

Accrued interest payable					

	Notional Amount	Level 1	Level 2	Level 3	Cost to Cede or Assume
Off-balance sheet commitments and standby letters of credit	$ 337,181	$ -	$ 33,718	$ -	$ 33,718

	At June 30, 2013				
	Carrying Amount	Level 1	Level 2 (in thousands)	Level 3	Estimated Fair Value
Assets:					
Cash and cash equivalents	$ 103,972	$ 103,972	$ -	$ -	$ 103,972
Securities available for sale	313,047	-	311,990	1,057	313,047
Federal Reserve Bank and FHLB stock, at cost	11,917	11,917	-	-	11,917
Loans held for sale, net	3,617	-	3,617	-	3,617
Loans held for investment, net	1,047,436	-	-	1,124,670	