

FIRST PACTRUST BANCORP INC

Form 10-Q

November 03, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

FIRST PACTRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

000-49806

(Commission File Number)

Maryland

(State of incorporation)

04-3639825

(IRS Employer Identification No.)

610 Bay Boulevard, Chula Vista, California

(Address of Principal Executive Offices)

91910

(ZIP Code)

(619) 691-1519

(Registrant's telephone number, including area code)

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

Check whether the registrant is an accelerated filer. YES NO

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

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

As of October 31, 2005 the Registrant had 4,419,500 outstanding shares of common stock.

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Form 10-Q Quarterly Report

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

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

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

| | September 30, | December 31, |
|---|----------------------|---------------------|
| | 2005 | 2004 |
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Cash and due from banks | \$ 5,700 | \$ 5,783 |
| Federal funds sold | 235 | 670 |
| Interest-bearing deposits | 6,524 | 5,862 |
| | <u> </u> | <u> </u> |
| Total cash and cash equivalents | 12,459 | 12,315 |
| Interest-bearing deposit in other financial institution | 1,501 | 2,490 |
| Securities available-for-sale | 14,100 | 10,019 |
| Federal Home Loan Bank stock, at cost | 8,426 | 7,784 |
| Loans receivable, net of allowance of \$4,661 at September 30, 2005 and \$4,430 at December 31, 2004 | 669,153 | 628,724 |
| Accrued interest receivable | 2,714 | 2,255 |
| Premises and equipment, net | 5,284 | 5,279 |
| Bank owned life insurance investment | 15,508 | |
| Other assets | 5,803 | 5,594 |
| | <u> </u> | <u> </u> |
| Total assets | \$ 734,948 | \$ 674,460 |
| | <u> </u> | <u> </u> |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Deposits | | |
| Noninterest-bearing | \$ 17,658 | \$ 15,561 |
| Interest-bearing | 475,980 | 438,020 |
| | <u> </u> | <u> </u> |
| Total deposits | 493,638 | 453,581 |
| Advances from Federal Home Loan Bank | 159,000 | 135,500 |
| Accrued expenses and other liabilities | 5,495 | 5,988 |
| | <u> </u> | <u> </u> |
| Total liabilities | 658,133 | 595,069 |
| SHAREHOLDERS EQUITY | | |
| Preferred stock, \$.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding | | |
| Common stock, \$.01 par value per share, 20,000,000 shares authorized; 5,445,000 shares issued | 54 | 54 |
| Additional paid-in capital | 65,842 | 65,281 |
| Retained earnings | 39,307 | 37,385 |

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| | | |
|---|-------------------|-------------------|
| Treasury stock, at cost (September 30, 2005- 1,025,500 shares, December 31, 2004- 800,100 shares) | (23,017) | (17,180) |
| Unearned Employee Stock Ownership Plan shares (September 30, 2005- 264,500 shares, December 31, 2004- 296,240 shares) | (3,174) | (3,555) |
| Unearned employee stock award shares (September 30, 2005- 113,293 shares, December 31, 2004- 143,560 shares) | (2,052) | (2,594) |
| Accumulated other comprehensive income (loss) | (145) | |
| | <u>76,815</u> | <u>79,391</u> |
| Total shareholders equity | | |
| | <u>\$ 734,948</u> | <u>\$ 674,460</u> |

See accompanying notes to consolidated financial statements.

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

| | Three months ended | | Nine months ended | |
|--|---------------------------|--------------|--------------------------|---------------|
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Interest and dividend income | | | | |
| Loans, including fees | \$ 8,807 | \$ 7,913 | \$ 25,204 | \$ 23,214 |
| Securities | 157 | 3 | 467 | 99 |
| Dividends and other interest-earning assets | 212 | 112 | 371 | 285 |
| Total interest income | 9,176 | 8,028 | 26,042 | 23,598 |
| Interest expense | | | | |
| Deposits | 3,220 | 1,999 | 8,494 | 5,556 |
| Federal Home Loan Bank advances | 1,242 | 920 | 3,289 | 2,695 |
| Total interest expense | 4,462 | 2,919 | 11,783 | 8,251 |
| Net interest income | 4,714 | 5,109 | 14,259 | 15,347 |
| Provision/(reduction) for loan losses | (44) | 194 | 208 | 450 |
| Net interest income after provision for loan losses | 4,758 | 4,915 | 14,051 | 14,897 |
| Noninterest income | | | | |
| Customer service fees | 311 | 313 | 932 | 914 |
| Net gain on sale of securities available for sale | | 66 | | 93 |
| Mortgage loan prepayment penalties | 45 | 49 | 145 | 187 |
| Income from bank owned life insurance | 192 | | 508 | |
| Other income | 4 | 9 | 20 | 26 |
| Total noninterest income | 552 | 437 | 1,605 | 1,220 |
| Noninterest expense | | | | |
| Salaries and employee benefits | 1,816 | 1,736 | 5,605 | 5,257 |
| Occupancy and equipment | 496 | 436 | 1,445 | 1,346 |
| Advertising | 102 | 77 | 319 | 245 |
| Professional fees | 85 | 53 | 368 | 229 |
| Stationary, supplies, and postage | 105 | 88 | 307 | 285 |
| Data processing | 220 | 198 | 643 | 584 |
| ATM costs | 127 | 125 | 372 | 367 |
| Loss on Investment - Housing Fund | 99 | | 297 | |
| Other general and administrative | 245 | 249 | 818 | 804 |
| Total noninterest expense | 3,295 | 2,962 | 10,174 | 9,117 |

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| | | | | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| Income before income taxes | 2,015 | 2,390 | 5,482 | 7,000 |
| Income tax expense | 661 | 1,033 | 1,908 | 3,017 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income | \$ 1,354 | \$ 1,357 | \$ 3,574 | \$ 3,983 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Comprehensive income | \$ 1,209 | \$ 1,356 | \$ 3,429 | \$ 3,951 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Earnings per share | | | | |
| Basic | \$.33 | \$.32 | \$.86 | \$.92 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Diluted | \$.32 | .32 | \$.84 | \$.90 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

See accompanying notes to consolidated financial statements.

4.

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

| | Nine Months Ended | |
|--|-------------------|-----------------|
| | September 30, | |
| | 2005 | 2004 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 3,574 | \$ 3,983 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Net amortization on securities | (15) | 32 |
| Provision for loan losses | 208 | 450 |
| Depreciation and amortization | 378 | 352 |
| Federal Home Loan Bank stock dividends | | (253) |
| Net gain on sales of securities available-for-sale | | 93 |
| Bank owned life insurance income | (508) | |
| Employee stock ownership plan compensation expense | 826 | 713 |
| Stock award compensation expense | 542 | 492 |
| Net change in: | | |
| Deferred loan fees | (550) | 4 |
| Accrued interest receivable | (459) | (100) |
| Other Assets | (209) | 1,128 |
| Accrued interest payable and other liabilities | (273) | 705 |
| | <u>3,514</u> | <u>7,599</u> |
| Net cash provided by operating activities | 3,514 | 7,599 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Loan originations and principal collections, net | (18,030) | (57,112) |
| Purchase of loans | (22,057) | |
| Increase in other interest bearing deposits | 989 | (200) |
| Purchase of Federal Home Loan Bank stock | (858) | |
| Redemption of Federal Home Loan Bank stock | 216 | 833 |
| Purchase of securities available-for-sale | (4,316) | (5,498) |
| Proceeds from maturities and principal repayments of securities available-for-sale | 3 | 1,269 |
| Sales of securities available-for-sale | | 10,463 |
| Purchase of bank owned life insurance investment | (15,000) | |
| Additions to premises and equipment | (383) | (156) |
| | <u>(59,436)</u> | <u>(50,401)</u> |
| Net cash provided by investing activities | (59,436) | (50,401) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in deposits | 40,057 | 60,521 |
| Net change in Federal Home Loan Bank open line | 34,500 | 2,500 |
| Repayments of Federal Home Loan Bank advances | (11,000) | (14,000) |
| Proceeds from FHLB advances | | 7,000 |
| Purchase of treasury stock | (5,880) | (10,059) |
| Exercise of stock options | 41 | |

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| | | |
|--|-----------|-----------|
| Dividends paid on common stock | (1,652) | (1,302) |
| Net cash provided by financing activities | 56,066 | 44,660 |
| Net change in cash and cash equivalents | 144 | 1,858 |
| Cash and cash equivalents at beginning of period | 12,315 | 11,575 |
| Cash and cash equivalents at end of period | \$ 12,459 | \$ 13,433 |

See accompanying notes to consolidated financial statements.

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

| | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Treasury Stock</u> | <u>Unearned ESOP</u> | <u>Unearned Stock Awards</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total</u> |
|---|-------------------------|---|------------------------------|---------------------------|--------------------------|--------------------------------------|--|------------------|
| Balance at January 1, 2004 | \$ 55 | \$ 64,966 | \$ 34,137 | \$ (8,016) | \$ (4,063) | \$ (2,591) | \$ 51 | \$ 84,539 |
| Comprehensive income: | | | | | | | | |
| Net income | | | 5,075 | | | | | 5,075 |
| Change in net unrealized gain on securities available-for-sale, net of reclassification and tax effects | | | | | | | (51) | (51) |
| Total comprehensive income | | | | | | | | 5,024 |
| Forfeiture and retirement of Stock | (1) | (171) | | (41) | | 212 | | (1) |
| Issuance of stock awards | | (47) | | 936 | | (889) | | |
| Stock awards earned | | | | | | 674 | | 674 |
| Purchase of 448,300 shares of treasury stock | | | | (10,059) | | | | (10,059) |
| Employee stock ownership plan shares earned | | 484 | | | 508 | | | 992 |
| Tax Benefits of RRP Shares Vesting | | 49 | | | | | | 49 |
| Dividends declared (\$.42 per share) | | | (1,827) | | | | | (1,827) |
| Balance at December 31, 2004 | <u>\$ 54</u> | <u>\$ 65,281</u> | <u>\$ 37,385</u> | <u>\$ (17,180)</u> | <u>\$ (3,555)</u> | <u>\$ (2,594)</u> | <u>\$</u> | <u>\$ 79,391</u> |
| Comprehensive income: | | | | | | | | |
| Net income | | | 3,574 | | | | | 3,574 |
| Change in net unrealized gain on securities available-for-sale, net of reclassification and tax effects | | | | | | | (145) | (145) |
| Total comprehensive income | | | | | | | | 3,429 |
| Options exercised | | (2) | | 43 | | | | 41 |
| Stock awards earned | | | | | | 542 | | 542 |
| Purchase of 227,400 shares of treasury stock | | | | (5,880) | | | | (5,880) |
| Employee stock ownership plan shares earned | | 445 | | | 381 | | | 826 |

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Tax Benefits of RRP Shares

| | | | | | | | | |
|--------------------------------------|-------|-----------|-----------|-------------|------------|------------|----------|-----------|
| Vesting | | 118 | | | | | | 118 |
| Dividends declared (\$.39 per share) | | | (1,652) | | | | | (1,652) |
| Balance at September 30, 2005 | \$ 54 | \$ 65,842 | \$ 39,307 | \$ (23,017) | \$ (3,174) | \$ (2,052) | \$ (145) | \$ 76,815 |

See accompanying notes to consolidated financial statements.

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FIRST PACTRUST BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(table amounts in thousands of dollars)

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of First PacTrust Bancorp, Inc. (the Company) as of September 30, 2005 and December 31, 2004 and for the three and nine month periods ended September 30, 2005 and September 30, 2004. Significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by accounting principles generally accepted in the United States of America are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission. The December 31, 2004 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission, but does not include all of the disclosures required by U.S. generally accepted accounting principles.

Interim statements are subject to possible adjustment in connection with the annual audit of the Company for the year ending December 31, 2005. In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented.

The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year.

Note 2 Summary of Significant Accounting Policies

Nature of Operations: The only business of the Company is the ownership of Pacific Trust Bank the Bank. The Bank is a federally chartered stock savings bank and a member of the Federal Home Loan Bank (FHLB) system, and maintains insurance on deposit accounts with the Savings Association Insurance Fund (SAIF) of the Federal Deposit Insurance Corporation. The Bank is engaged in the business of retail banking, with operations conducted through its main office and eight branches located in the San Diego and Riverside counties.

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The accounting and reporting policies of the Company are based upon accounting principles generally accepted in the United States of America and conform to predominant practices within the banking industry.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The collectibility of loans, fair value of financial instruments, and status of contingencies are particularly subject to change.

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New Accounting Standards:

SFAS 123R, *Accounting for Stock-Based Compensation, Revised*, requires all public companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options. This will apply to awards granted or modified as of the beginning of the first quarter or annual reporting period that begins after June 15, 2005. Compensation cost will also be recorded on the date of grant as the Company's options vest over five years. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date. See Note 4 for expected impact on operations based on current awards granted. In April of 2005, the Financial Accounting Standards Board (FASB) issued a revision to SFAS 123R delaying the effective date of the standard to the annual reporting period that begins after June 15, 2005.

Note 3 Employee Stock Ownership Plan

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

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

Note 4 Employee Stock Compensation

SOP Plan: A Stock Option Plan (SOP) provides for issue of options to directors, officers, and employees. The Company adopted the SOP in April of 2003 under the terms of which 529,000 shares of the Company's common stock may be awarded. The options become exercisable in equal installments over a five-year period from the date of grant. The options expire ten years from the date of grant. As of September 30, 2005 the Company has 506,500 options outstanding of which 24,000 were granted, 4,000 forfeited, and 2,000 exercised during the nine months ending September 30, 2005. For those options currently awarded that will vest after January 1, 2006, (the effective date of SFAS 123R) the Company expects to incur compensation expense in the amount of approximately \$160,000 per year for the years ended 2006 and 2007 and \$85,000 for the year ended 2008.

The Corporation applies Accounting Principles Board (APB) Opinion 25 and related Interpretations in accounting for its stock option plan. Accordingly, no compensation cost has been recognized at the date of grant. Had compensation cost been determined based on the fair value at the grant dates for awards under the plan consistent with the method of Statement of Financial Accounting Standards (SFAS) No. 123,

Accounting for Stock-Based Compensation, the Corporation's net income and earnings per share would have been reduced to the pro forma amounts in the table below. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options vesting period.

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| | September 30, 2005 | September 30, 2004 | September 30, 2005 | September 30, 2004 |
|--------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Three Months Ended | Three Months Ended | Nine Months Ended | Nine Months Ended |
| Net income as reported | \$ 1,354 | \$ 1,357 | \$ 3,574 | \$ 3,983 |
| Pro forma net income | 1,330 | 1,335 | 3,504 | 3,923 |
| Earnings per share as reported | | | | |
| Basic | .33 | .32 | .86 | .92 |
| Diluted | .32 | .32 | .84 | .90 |
| Pro forma earnings per share | | | | |
| Basic | .32 | .32 | .84 | .91 |
| Diluted | .31 | .31 | .80 | .89 |

RRP Plan: A Recognition and Retention Plan (RRP) provides for issue of shares to directors, officers, and employees. Compensation expense is recognized over the vesting period of the shares for the difference between exercise price and the market value at issue date. Pursuant to its 2003 stock-based incentive plan, the Company awarded 213,800 shares of restricted stock during 2003 and 2004 of which 12,000 shares were forfeited in 2004. These shares vest over a five year period. The unamortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity.

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Compensation expense for restricted stock awards totaled approximately \$180,000 for the three months ended September 30, 2005 and \$542,000 for the nine months ended September 30, 2005. Compensation expense for restricted stock awards totaled approximately \$181,000 for the three months ended September 30, 2004 and \$492,000 for the nine months ended September 30, 2004.

Note 5 Earnings Per Share

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

| | Three Months Ended | Three Months Ended | Nine Months Ended | Nine Months Ended |
|--|-----------------------|-----------------------|----------------------|----------------------|
| | Sept. 30, 2005 | Sept. 30, 2004 | Sept. 30, 2005 | Sept. 30, 2004 |
| Net income as reported (in thousands) | \$ 1,354 | \$ 1,357 | \$ 3,574 | \$ 3,983 |
| Weighted average common shares outstanding | 4,112,679 | 4,200,624 | 4,162,399 | 4,325,774 |
| Basic earnings per share | \$.33 | \$.32 | \$.86 | \$.92 |
| Earnings per share assuming dilution | | | | |
| Net income available to common shareholders | \$ 1,354 | \$ 1,357 | \$ 3,574 | \$ 3,983 |
| Weighted average common shares outstanding | 4,112,679 | 4,200,624 | 4,162,399 | 4,325,774 |
| Dilutive effect of stock options | 90,820 | 69,806 | 88,421 | 60,366 |
| Dilutive effect of restricted stock awards | 21,713 | 23,954 | 22,899 | 20,850 |
| Average common shares and dilutive potential common shares | 4,225,213 | 4,294,384 | 4,273,718 | 4,406,990 |
| Diluted earnings per share | \$.32 | \$.32 | \$.84 | \$.90 |

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

The following discussion compares the financial condition of First PacTrust Bancorp, Inc. (the Company), at September 30, 2005 to its financial condition at December 31, 2004 and the results of operations for the three-month and nine-month periods ended September 30, 2005 to the same periods in 2004. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

The Company is a community-oriented financial institution deriving substantially all of its revenue from providing banking services to individuals within its market area, primarily San Diego County and portions of Riverside County, CA. The Company's assets consist primarily of loans and investment securities, which are funded by deposits, borrowings and capital. The primary source of revenue is net interest income, the difference between interest income on loans and investments, and interest expense on deposits and borrowed funds. The Company's basic

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strategy is to maintain and grow net interest income by the retention of its existing customer base and the expansion of its core businesses and branch offices within its current market and surrounding areas. The Company's primary market risk exposure is interest rate risk. Interest rate risk is the exposure of net interest income to changes in interest rates.

Comparison of Financial Condition at September 30, 2005 and December 31, 2004

The Company's total assets increased by \$60.5 million, or 9.0%, to \$734.9 million at September 30, 2005 from \$674.4 million at December 31, 2004. The increase primarily reflected the growth in the balance of loans receivable in the amount of \$40.4 million and the purchase of a \$15.0 million bank-owned life insurance (BOLI) investment during the first quarter.

Net loans increased by \$40.4 million, or 6.4%, to \$669.1 million at September 30, 2005 from \$628.7 million at December 31, 2004. The increase in loans resulted primarily from \$22.1 million one- to- four residential loan purchases made during the second quarter as well as loan originations exceeding repayments during the period.

Securities classified as available-for-sale increased by \$4.1 million, or 40.7%, to \$14.1 million at September 30, 2005 from \$10.0 million at December 31, 2004. This increase was primarily due to the purchase of agency fixed rate securities in the amount of \$4.3 million during the first quarter of 2005.

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Total deposits increased by \$40.0 million, or 8.8%, to \$493.6 million at September 30, 2005 from \$453.6 million at December 31, 2004. The increase primarily reflected growth in money market accounts and certificates of deposits resulting from increased marketing efforts and competitive pricing during the third quarter. Money market accounts increased \$30.0 million, or 39.6%, to \$105.6 million. Certificates of deposit increased \$15.2 million, or 6.6%, to \$244.3 million. The growth in certificates of deposits primarily reflected increased retail customer deposits as our institutional certificate of deposits decreased \$10.7 million to \$24.6 million at September 30, 2005 from \$35.3 million at December 31, 2004 as marketing efforts have shifted to attract retail deposits. NOW accounts decreased \$6.2 million to \$63.8 million at September 30, 2005 from \$70.0 million at December 31, 2004. Savings accounts decreased by \$1.0 million to \$62.3 million at September 30, 2005 from \$63.3 million at December 31, 2004.

Federal Home Loan Bank advances increased \$23.5 million, or 17.3%, to \$159.0 million at September 30, 2005 from \$135.5 million at December 31, 2004. The increase was primarily due to increased FHLB overnight borrowings used to fund the \$22.1 million loan purchases made in the second quarter and the \$15.0 million BOLI investment made in the first quarter. The Company interchanges the use of deposits and borrowings to fund assets depending on various factors including liquidity and asset/liability management.

Equity decreased \$2.6 million to \$76.8 million at September 30, 2005 from \$79.4 million at December 31, 2004. The net decrease resulted primarily from the purchase of 227,400 shares of treasury stock for \$5.9 million and the payment of dividends of \$1.7 million. Equity was increased primarily by net income of \$3.6 million, ESOP shares earned of \$826,000 and stock awards earned of \$542,000.

Comparison of Operating Results for the Three Months Ended September 30, 2005 and 2004

General. Net income for the three months ended September 30, 2005 was \$1.4 million, a decrease of \$3,000, or .22%, from the three months ended September 30, 2004. The decrease in net income resulted from the fluctuations described below.

Interest income. Interest income increased by \$1.2 million, or 14.3%, to \$9.2 million for the three months ended September 30, 2005 from \$8.0 million for the three months ended September 30, 2004. The primary factor for the increase in interest income was an increase in the average loans receivable balance of \$28.1 million, or 4.4%, from \$638.0 million for the three months ended September 30, 2004 to \$666.1 million for the quarter ended September 30, 2005. The increase was primarily the result of \$22.1 million in loan purchases completed at the end of the second quarter, as well as loan originations exceeding repayments during the period. The average yield on loans receivable increased 33 basis points from 4.96% for the three months ended September 30, 2004 to 5.29% for the three months ended September 30, 2005.

Interest income on securities increased by \$154,000 to \$157,000 for the three months ended September 30, 2005 from \$3,000 for the three months ended September 30, 2004 due to the overall increase in the securities portfolio resulting from agency security purchases made in the first quarter of 2005. The average yield on the securities portfolio was 4.38% for the three months ended September 30, 2005 compared to .84% for the same period in 2004.

Interest Expense. Interest expense increased \$1.5 million or 52.9%, to \$4.4 million for the three months ended September 30, 2005. The increase in interest expense resulted primarily from an increase in market interest rates and an increase in the average balance of deposits from \$428.6 million for the three months ended September 30, 2004 to \$468.7 million for the three months ended September 30, 2005, as well as a \$16.4 million increase in the average balance of FHLB advances from \$145.3 million in 2004 to \$161.7 million for the same period in 2005. Interest expense on deposits increased \$1.2 million, or 61.1%, to \$3.2 million for the three months ended September 30, 2005 from \$2.0 million for the same period in 2004. Interest rates paid on money market accounts and certificates of deposit increased approximately one to two percent depending upon the deposit product for similar terms compared to the same period in the prior year based on changes in general interest rate

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levels and in order to remain competitive in the local marketplace. Interest expense on Federal Home Loan Bank advances increased \$322,000, or 35.0%, to \$1.2 million for the three months ended September 30, 2005 from \$920,000 for the three months ended September 30, 2004.

Net Interest Income. As a result of the factors mentioned above, net interest income before provision for loan losses decreased \$395,000, or 7.7%, to \$4.7 million for the three months ended September 30, 2005 from \$5.1 million for the three months ended September 30, 2004. At September 30, 2005 the net interest spread decreased 44 basis points to 2.40%, while the net interest margin decreased 42 basis points to 2.70% compared to the prior year's quarter due to the continued flattening of the yield curve. The ratio of interest earning assets to interest bearing liabilities has decreased 3.5% due to the continued use of interest earning assets to repurchase stock into treasury and to purchase the BOLI and housing fund investments. Although these investments have increased noninterest income by \$192,000 for the three months ended September 30, 2005 and reduced the Company's effective tax rate for the period, they have negatively impacted the Company's net interest margin.

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Provision for Loan Losses. A \$44,000 provision reduction was made for the three months ended September 30, 2005, compared to a \$194,000 loan provision made for the three months ended September 30, 2004. The provision decreased by \$238,000 due to decreased loan growth during the third quarter compared to the prior year's quarter as well as changes in the economic factors affecting the loan loss calculation.

Provisions for loan losses were charged to operations at a level required to reflect probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. Large groups of smaller balance homogenous loans, such as residential real estate, small commercial real estate, and home equity and consumer loans, are evaluated in the aggregate using historical loss factors and peer group data adjusted for current economic conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, and classified loans, are evaluated individually for impairment.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. The Company used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses as a percentage of loans outstanding was .69% at September 30, 2005 and .70% for the same period in 2004. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses quarterly. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of September 30, 2005 was maintained at a level that represented management's best estimate of incurred losses in the loan portfolio to the extent they were both probable and reasonably estimable.

Noninterest Income. Noninterest income increased \$115,000, or 26.3% to \$552,000 for the three months ended September 30, 2005 from \$437,000 for the three months ended September 30, 2004 primarily due to a \$192,000 increase in income related to the increase in the cash surrender value of the BOLI investment made during the first quarter of 2005, coupled by a decrease of \$66,000 in the gain on sale of securities from sales made in the prior year's quarter.

Noninterest Expense. Noninterest expense increased \$333,000, or 11.2%, to \$3.3 million for the three months ended September 30, 2005 from \$3.0 million for the three months ended September 30, 2004. This increase was primarily the result of a \$99,000 increase in the loss on the housing fund investment, an \$80,000 increase in salaries and employee benefits, a \$60,000 increase in occupancy and equipment expenses, a \$32,000 increase in professional fees and a 25,000 increase in advertising expenses.

The losses on the housing fund investment are expected to continue based on the nature of this investment. The investment is designed to provide tax credits and tax benefits while improving the community and allowing the Company to receive CRA benefit for regulatory purposes.

Total salaries and employee benefits increased \$80,000, or 4.6%, to \$1.8 million for the three months ended September 30, 2005 from \$1.7 million for the same period in 2004. Salaries and employee benefits represented 55.3% and 58.6% of total noninterest expense for the three months ended September 30, 2005 and September 30, 2004, respectively. The increase in salaries and employee benefits was primarily due to increased salary expense of \$83,000 due to salary increases in the current year, increased ESOP compensation expense of \$15,000 resulting from an increase in the Company's stock price for the quarter ended September 30, 2005 and increased employee taxes of \$14,000 resulting from the

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increased salary expense. Other contributing factors include an increase in employee health and insurance expenses of \$14,000 due to premium increases incurred during the third quarter, a decrease of \$50,000 in bonuses and incentives as well as miscellaneous decreases in other various benefit accounts.

Other occupancy expenses increased \$60,000 due mainly to increased purchases of uncapitalized furniture and equipment of \$20,000, an increase of \$16,000 for the company's bond insurance coverage and an increase of \$13,000 in depreciation expense related to asset purchases made during the current year. Other increases in various accounts were attributed to equipment upgrades and maintenance done during the third quarter.

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Professional fees increased \$32,000 primarily related to increased auditing fees as a result of compliance with Rule 404 of the recently enacted Sarbanes-Oxley regulation as well as increased legal fees associated with the development of a new loan product.

Advertising fees increased \$25,000 due primarily to increased branch advertising and marketing efforts during the current year.

Income Tax Expense. Income tax expense decreased \$372,000 to \$661,000 for the three months ended September 30, 2005, from \$1.0 million for the three months ended September 30, 2004. This decrease was primarily the result of lower pre-tax income as well as increased tax benefits resulting from a \$4.5 million equity investment in a tax credit fund made in the fourth quarter of 2004 as well as a \$15.0 million BOLI investment made during the first quarter of 2005. The effective tax rate was 32.8% and 43.2% for the three months ended September 30, 2005 and 2004, respectively.

Comparison of Operating Results for the Nine Months Ended September 30, 2005 and 2004

General. Net income for the nine months ended September 30, 2005 was \$3.6 million, a decrease of \$409,000, or 10.3%, from \$4.0 million for the nine months ended September 30, 2004. The decrease in net income resulted primarily from an increase in short term interest rates and a continued flattening of the yield curve as discussed below.

Interest income. Interest income increased by \$2.4 million or 10.4%, to \$26.0 million for the nine months ended September 30, 2005 from \$23.6 million for the nine months ended September 30, 2004. The primary factor for the increase in interest income was a \$29.7 million or 4.8% increase in the average loans receivable balance, from \$617.6 million for the nine months ended September 30, 2004 to \$647.3 million for the nine months ended September 30, 2005. The growth consisted primarily of \$22.1 million in loan purchases as well as loan originations exceeding repayments. The average yield on loans receivable increased by 18 basis points to 5.19% for the nine months ended September 30, 2005 compared to 5.01% for the nine months ending September 30, 2004.

Interest income on securities increased by \$368,000 to \$467,000 for the nine months ended September 30, 2005 due to the overall increase in the balance of the portfolio resulting from agency security purchases made in the first quarter of 2005. The average yield on the securities portfolio increased from 3.35% for the nine months ended September 30, 2004 to 4.48% for the nine months ended September 30, 2005.

Interest Expense. Interest expense increased \$3.5 million or 42.8%, to \$11.8 million for the nine months ended September 30, 2005. Interest expense on deposits increased \$2.9 million or 52.9%, to \$8.5 million for the nine months ended September 30, 2005 from \$5.6 million for the same period in 2004. The increase in interest expense resulted from an increase in the Company's cost of funds due to an increase in short term interest rates as well as a \$43.4 million increase in the average balance of deposits from \$413.0 million for the nine months ended September 30, 2004 to \$456.4 million for the nine months ended September 30, 2005. Interest expense on Federal Home Loan Bank advances increased approximately \$594,000, or 22.0%, to \$3.3 million for the nine months ended September 30, 2005 from \$2.7 million for the nine months ended September 30, 2004 due to a \$10.4 million increase in the average balance of Federal Home Loan Bank advances as well as an increase in the rates paid on advances.

Net Interest Income. As a result of the factors mentioned above, net interest income before the provision for loan losses decreased \$1.1 million or 7.1%, to \$14.2 million for the nine months ended September 30, 2005 from \$15.3 million for the nine months ended September 30, 2004. Due to the continued flattening of the yield curve, the Company's margins have significantly tightened with the net interest spread decreasing 40 basis

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points to 2.55% and the net interest margin decreasing 41 basis points to 2.80% compared to the prior year's nine month period. The ratio of interest earning assets to interest bearing liabilities has also decreased 3.5% due to the continued use of interest earning assets to repurchase stock into treasury and to purchase the BOLI and housing fund investments. Although these investments have increased noninterest income for the nine months ended September 30, 2005 and reduced the Company's effective tax rate for the period, they have negatively impacted the Company's net interest margin.

Provision for Loan Losses. Provisions of \$208,000 and \$450,000 were made for the nine months ended September 30, 2005 and 2004, respectively. The provision decreased by \$242,000 due to decreased loan growth during the nine month period compared to the prior year's period as well as changes in the economic factors affecting the loan loss calculation. Year-to-date the Company has incurred net recoveries of approximately \$19,000.

Provisions for loan losses were charged to operations at a level required to reflect probable incurred credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. Large groups of

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smaller balance homogenous loans, such as residential real estate, small commercial real estate, and home equity and consumer loans, are evaluated in the aggregate using historical loss factors and peer group data adjusted for current economic conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, and classified loans, are evaluated individually for impairment.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. The Company used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses as a percentage of loans outstanding was .69% at September 30, 2005 and .70% for the same period in 2004. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses quarterly. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require the bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of September 30, 2005 was maintained at a level that represented management's best estimate of incurred losses in the loan portfolio to the extent they were both probable and reasonably estimable.

Noninterest Income. Noninterest income increased \$385,000, or 31.6% to \$1.6 million for the nine months ended September 30, 2005 from \$1.2 million for the nine months ended September 30, 2004, primarily as a result of a \$508,000 increase in income related to the increase in cash surrender value of the BOLI investment, a decrease of \$93,000 from the sale of securities in the prior year's period and a decrease of \$42,000 in prepayment penalties on mortgage loans.

Noninterest Expense. Noninterest expense increased \$1.1 million, or 11.6%, to \$10.2 million for the nine months ended September 30, 2005 from \$9.1 million for the nine months ended September 30, 2004. This increase was primarily the result of a \$348,000 increase in salaries and employee benefits, a \$297,000 increase in the loss on the housing fund investment, a \$139,000 increase in professional fees, and a \$74,000 increase in advertising fees.

Salaries and employee benefits represented 55.2% and 57.7% of total noninterest expense for the nine months ended September 30, 2005 and September 30, 2004, respectively. Total salaries and employee benefits increased \$348,000, or 6.6%, to \$5.6 million for the nine months ended September 30, 2005 from \$5.3 million for the same period in 2004. The increase was primarily due to an increase of \$192,000 in salary and employee benefit expense due to increased salaries in the current year and a \$67,000 increase in employee taxes resulting from increased salaries. ESOP compensation expense increased \$67,000 resulting from an increase in the Company's stock price during the period.

The losses on the housing fund investment are expected to continue based on the nature of this investment. The investment is designed to provide tax credits and tax benefits while improving the community and allowing the Company to receive CRA benefit for regulatory purposes.

Professional fees increased \$139,000 primarily due to increased auditing fees as a result of compliance with Rule 404 of the recently enacted Sarbanes-Oxley regulation as well as increased legal fees associated with the development of a new loan product.

Advertising fees increased \$74,000 due primarily to increased branch advertising and marketing efforts during the current year.

Income Tax Expense. Income tax expense decreased \$1.1 million to \$1.9 million for the nine months ended September 30, 2005, from \$3.0 million for the nine months ended September 30, 2004. The effective tax rate was 34.8% and 43.1% for the nine months ended September 30, 2005 and 2004, respectively. The decrease in the effective tax rate is attributable to the tax exempt status of income from the BOLI investment purchased during the first quarter of 2005 and tax credits from the affordable housing fund investment made in December 2004.

Liquidity and Commitments

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

The Bank's liquidity, represented by cash and cash equivalents, is a product of its operating, investing, and financing activities. The Bank's primary sources of funds are deposits, payments and maturities of outstanding loans and investment

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

Liquidity management is both a daily and long-term function of business management. Any excess liquidity would be invested in federal funds or authorized investments such as mortgage-backed or U.S. Agency securities. On a longer-term basis, the Bank maintains a strategy of investing in various lending products. The Bank uses its sources of funds primarily to meet its ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments, and to maintain its portfolio of mortgage-backed securities and investment securities. At September 30, 2005, the total approved loan origination commitments outstanding amounted to \$5.6 million. At the same date, unused lines of credit were \$25.6 million and outstanding letters of credit totaled \$46,000. There were no securities scheduled to mature in one year or less at September 30, 2005. Certificates of deposit scheduled to mature in one year or less at September 30, 2005, totaled \$139.2 million. Although the average cost of deposits has increased throughout 2005, management's policy is to maintain deposit rates at levels that are competitive with other local financial institutions. Based on the competitive rates and on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank. In addition, the Bank had the ability at September 30, 2005 to borrow an additional \$156.4 million from the Federal Home Loan Bank of San Francisco as well as \$1.0 million from Pacific Coast Bankers Bank as a funding source to meet commitments and for liquidity purposes. The Bank has Federal Home Loan Bank advances of \$41.0 million maturing within the next 12 months.

Capital

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain a well capitalized institution in accordance with regulatory standards. Total equity was \$70.0 million at September 30, 2005, or 9.5% of total assets on that date. As of September 30, 2005, the Bank exceeded all capital requirements of the Office of Thrift Supervision. The Bank's regulatory capital ratios at September 30, 2005 were as follows: core capital 9.50%; Tier 1 risk-based capital, 14.91%; and total risk-based capital, 15.91%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0%, and 10.0%, respectively.

Impact of Inflation

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

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

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of noninterest expense. Such expense items as employee compensation, employee benefits, and occupancy and equipment costs may be subject to increases as a result of inflation. An

additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. We are unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Bank's interest rate sensitivity is monitored by management through the use of a model that estimates the change in net portfolio value (NPV) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance-sheet contracts. An NPV Ratio, in any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The Sensitivity Measure is the decline in the NPV Ratio, in basis points, caused by a 2% increase or decrease in rates, whichever produces a larger decline. The higher an institution's Sensitivity Measure is, the greater its exposure to interest rate risk is considered to be. The Office of Thrift Supervision (OTS) has incorporated an interest rate risk component into its regulatory capital rule. Under the rule, an institution whose

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Sensitivity Measure exceeds 200 basis points may be required to deduct an interest rate risk component in calculating its total capital for purposes of the risk-based capital requirement. Increases in interest rates would be expected to have a negative impact on the Bank's operating results. As of June 30, 2005, the latest date for which information is available, the Bank's Sensitivity Measure, as measured by the OTS, resulting from a 2% increase in interest rates was a decrease of 159 basis points and would result in a \$14.5 million decrease in the NPV of the Bank. The Sensitivity Measure is less than the threshold at which the Bank could be required to hold additional risk-based capital under OTS regulations.

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

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

The following table shows the NPV and projected change in the NPV of the Bank at June 30, 2005, the latest date for which information is available, assuming an instantaneous and sustained change in market rates of interest of 100, 200, and 300 basis points. On June 30, 2005, the yield on the three-month Treasury bill was 3.06%. The net portfolio value analysis was unable to produce results for the minus 300 basis point scenario for the quarter ended June 30, 2005.

Interest Rate Sensitivity of Net Portfolio Value (NPV)

| Change in Rates | Net Portfolio Value | | | NPV as a % of | |
|-----------------|---------------------|-----------|----------|---------------|---------|
| | \$ Amount | \$ Change | % Change | NPV Ratio | Change |
| + 300 bp | \$ 72,394 | (25,535) | (26)% | 10.07% | (290)bp |
| + 200 bp | 83,478 | (14,451) | (15)% | 11.38% | (159)bp |
| + 100 bp | 91,957 | (5,972) | (6)% | 12.34% | (64)bp |
| 0 bp | 97,929 | | | 12.97% | 0bp |
| - 100 bp | 101,002 | 3,073 | 3% | 13.26% | 29bp |
| -200 bp | 101,345 | 3,416 | 3% | 13.23% | 26bp |

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

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Section 13(a)-15(e) of the Securities Exchange Act of 1934 (the "Act") as of September 30, 2005 was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Principal Financial Officer and other members of the Company's senior management as of the end of the period preceding the filing of this quarterly report. The Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Principal Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There have been no changes in internal controls over financial reporting (as defined in Rule 13a-15(f) under the Activities) that occurred during the quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

We intend to continually review and evaluate the design and effectiveness of our disclosure controls and procedures and to improve our controls and procedures over time and to correct any deficiencies that we may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While we believe that the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to modify our disclosure controls and procedures.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

ISSUER PURCHASES OF EQUITY SECURITIES

| <u>Period</u> | <u>Total # of shares Purchased</u> | <u>Average price paid per share</u> | <u>Total # of shares purchased as part of a publicly announced program</u> | <u>Maximum # of shares that may yet be purchased</u> |
|----------------|--|---|--|--|
| 7/1/05-7/31/05 | 0 | 0 | 0 | 225,000 |
| 8/1/05-8/31/05 | 126,000 | 26.75 | 126,000 | 99,000 |
| 9/1/05-9/30/05 | 0 | 0 | 0 | 99,000 |

On 5/24/05, a buyback totaling 225,000 shares was authorized by the Company's board of directors to be conducted at prevailing market prices. As of September 30, 2005, 99,000 may still be purchased under this authorization.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

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

(a) None

(b) None

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS

| Regulation | | Reference to |
|--------------------|---|--------------------------|
| S-K Exhibit | | Prior Filing |
| | | or Exhibit Number |
| Number | Document | Attached Hereto |
| 2.0 | Plan of acquisition, reorganization, arrangement, liquidation or succession | None |
| 3.1 | Charter for First PacTrust Bancorp, Inc. | * |
| 3.2 | Bylaws of First PacTrust Bancorp, Inc. | * |
| 4.0 | Form of Stock Certificate of First PacTrust Bancorp, Inc. | * |
| 9.0 | Voting Trust Agreement | None |
| 10.1 | Severance Agreement with Hans Ganz | *** |
| 10.2 | Severance Agreement with Melanie Stewart | *** |
| 10.3 | Severance Agreement with James P. Sheehy | *** |
| 10.4 | 401(k) Employee Stock Ownership Plan | * |
| 10.5 | Registrant's Stock Option and Incentive Plan | ** |
| 10.6 | Registrant's Recognition and Retention Plan | ** |
| 10.7 | Named Executive Officers Salary and Bonus Arrangements for 2005 and Director Fee Arrangements for 2005. | **** |
| 11.0 | Statement regarding computation of ratios | None |

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| | | |
|------|--|------|
| 14.0 | Code of Ethics | *** |
| 16.0 | Letter regarding change in certifying accountant | None |
| 18.0 | Letter regarding change in accounting principles | None |
| 21.0 | Subsidiaries of the Registrant | * |
| 22.0 | Published Report regarding matters submitted to vote of security holders | None |
| 23.0 | Consent of Crowe Chizek and Company LLP | **** |
| 24.0 | Power of Attorney, included in signature pages | **** |
| 31.1 | Rule 13(a)-14(a) Certification (Chief Executive Officer) | 31.1 |
| 31.2 | Rule 13(a)-14(a) Certification (Chief Financial Officer) | 31.2 |
| 32.0 | Section 906 of The Sarbanes-Oxley Act Certification | 32 |

* Filed in First PacTrust's Registration Statement on Form S-1. Filed on March 28, 2002. Such information is hereby incorporated by reference.

** Filed as an appendix to the Registrant's definitive proxy statement filed on March 21, 2003. Such previously filed document is incorporated herein by reference in accordance with Item 601 of Regulation S-K.

*** Filed as an Exhibit to the Company's annual report on Form 10-K for the year ended December 31, 2003.

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

(c) Financial Statement Schedules - None

**** Filed as an Exhibit to the Company's annual report on Form 10-K for the year ended December 31, 2004.

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

(c) Financial Statement Schedules - None

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SIGNATURES

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

FIRST PACTRUST BANCORP, INC.

Date: November 3, 2005

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

Date: November 3, 2005

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

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