

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

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**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2003

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**FIRST PACTRUST BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**000-49806**

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(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)

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

As of August 11, 2003 the Registrant had 5,243,400 outstanding shares of common stock.

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**FIRST PACTRUST BANCORP, INC.**

Form 10-Q Quarterly Report

Index

|  | <u>Page</u> |
|--|-------------|
| PART I - Financial Information   |             |
| Item 1 <a href="#">Financial Statements</a>  | 1           |
| Item 2 <a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a> | 9           |
| Item 3 <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>                            | 17          |
| Item 4 <a href="#">Controls and Procedures</a>   | 19          |
| PART II - Other Information  |             |
| Item 1 <a href="#">Legal Proceedings</a>   | 19          |
| Item 2 <a href="#">Changes in Securities</a>   | 19          |
| Item 3 <a href="#">Defaults Upon Senior Securities</a>   | 19          |
| Item 4 <a href="#">Submission of Matters to a Vote of Securities Holders</a>                                 | 19          |
| Item 6 <a href="#">Exhibits and Reports on Form 8-K</a>  | 20          |
| <a href="#">SIGNATURES</a>   | 21          |

**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,

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## [Table of Contents](#)

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)**

|   | June 30,<br>2003  | December 31,<br>2002 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Cash and due from banks   | \$ 11,806         | \$ 7,238             |
| Federal funds sold  | 1,035             | 855                  |
| Interest-bearing deposits   | 99                | 3,413                |
| Total cash and cash equivalents   | 12,940            | 11,506               |
| Securities available-for-sale   | 14,631            | 18,733               |
| Federal Home Loan Bank stock  | 5,910             | 4,505                |
| Loans receivable, net of allowance of \$3,479 and \$2,953   | 489,940           | 403,732              |
| Premises and equipment, net   | 5,249             | 5,163                |
| Servicing agent receivable  | 35                | 13,727               |
| Other assets  | 3,493             | 2,551                |
| <b>Total assets</b>   | <b>\$ 532,198</b> | <b>\$ 459,917</b>    |
| <b>LIABILITIES AND EQUITY</b>   |                   |                      |
| <b>LIABILITIES</b>  |                   |                      |
| <b>Deposits</b>   |                   |                      |
| Non-interest-bearing  | \$ 10,055         | \$ 6,389             |
| Interest-bearing  | 315,971           | 273,325              |
| Total deposits  | 326,026           | 279,714              |
| Advances from Federal Home Loan Bank  | 117,500           | 90,100               |
| Accrued expenses and other liabilities  | 2,042             | 1,222                |
| <b>Total liabilities</b>  | <b>445,568</b>    | <b>371,036</b>       |
| <b>STOCKHOLDERS' EQUITY</b>   |                   |                      |
| Preferred stock, \$.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding   | —                 | —                    |
| Common stock, \$.01 par value per share, 20,000,000 shares authorized; 5,455,000 and 5,290,000 shares issued at June 30, 2003 and December 31, 2002 | 55                | 53                   |
| Additional paid-in capital  | 64,772            | 61,833               |
| Retained earnings   | 32,758            | 31,305               |
| Treasury Stock  | (4,020)           | —                    |
| Unearned employee stock ownership plan shares, 359,720 and 380,880 shares at June 30, 2003 and December 31, 2002                                    | (4,317)           | (4,571)              |
| Unearned employee stock award shares, 159,000 shares at June 30, 2003   | (2,742)           | —                    |
| Accumulated other comprehensive income  | 124               | 261                  |
| <b>Total stockholders' equity</b>   | <b>86,630</b>     | <b>88,881</b>        |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 532,198</b> | <b>\$ 459,917</b>    |

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

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

|  | Six months ended<br>June 30, |                 | Three months ended<br>June 30, |               |
|--|------------------------------|-----------------|--------------------------------|---------------|
|  | 2003                         | 2002            | 2003                           | 2002          |
| Interest and dividend income                               |                              |                 |                                |               |
| Loans, including fees                                      | \$ 12,773                    | \$ 9,642        | \$ 6,665                       | \$ 4,978      |
| Securities   | 285                          | 397             | 131                            | 221           |
| Other interest-earning assets                              | 135                          | 217             | 65                             | 133           |
| <b>Total interest income</b>                               | <b>13,193</b>                | <b>10,256</b>   | <b>6,861</b>                   | <b>5,332</b>  |
| Interest expense   |                              |                 |                                |               |
| Deposits   | 2,902                        | 3,381           | 1,461                          | 1,704         |
| Federal Home Loan Bank advances                            | 1,325                        | 646             | 739                            | 333           |
| <b>Total interest expense</b>                              | <b>4,227</b>                 | <b>4,027</b>    | <b>2,200</b>                   | <b>2,037</b>  |
| <b>Net interest income</b>                                 | <b>8,966</b>                 | <b>6,229</b>    | <b>4,661</b>                   | <b>3,295</b>  |
| Provision for loan losses                                  | 628                          | 439             | 300                            | 274           |
| <b>Net interest income after provision for loan losses</b> | <b>8,338</b>                 | <b>5,790</b>    | <b>4,361</b>                   | <b>3,021</b>  |
| Noninterest income   |                              |                 |                                |               |
| Customer service fees                                      | 544                          | 441             | 315                            | 222           |
| Other income   | 20                           | 48              | 11                             | 35            |
| <b>Total noninterest income</b>                            | <b>564</b>                   | <b>489</b>      | <b>326</b>                     | <b>257</b>    |
| Noninterest expense  |                              |                 |                                |               |
| Salaries and employee benefits                             | 2,690                        | 1,935           | 1,426                          | 994           |
| Occupancy and equipment expense                            | 916                          | 1,037           | 456                            | 461           |
| Advertising  | 208                          | 177             | 143                            | 67            |
| Professional fees  | 107                          | 70              | 49                             | 22            |
| Stationary, supplies, and postage                          | 242                          | 179             | 115                            | 75            |
| Data processing expense                                    | 397                          | 374             | 171                            | 133           |
| ATM costs  | 261                          | 206             | 148                            | 105           |
| Other general and administrative                           | 585                          | 337             | 348                            | 218           |
| <b>Total noninterest expense</b>                           | <b>5,406</b>                 | <b>4,315</b>    | <b>2,856</b>                   | <b>2,075</b>  |
| <b>Income before income taxes</b>                          | <b>3,496</b>                 | <b>1,964</b>    | <b>1,831</b>                   | <b>1,203</b>  |
| Income tax expense   | 1,493                        | 790             | 785                            | 493           |
| <b>Net income</b>  | <b>\$ 2,003</b>              | <b>\$ 1,174</b> | <b>\$ 1,046</b>                | <b>\$ 710</b> |
| <b>Comprehensive income</b>                                | <b>\$ 1,866</b>              | <b>\$ 1,288</b> | <b>\$ 968</b>                  | <b>\$ 926</b> |
| Earnings per share   |                              |                 |                                |               |
| Basic  | \$ .41                       | \$ N/A          | \$ .21                         | \$ N/A        |
| Diluted  | \$ .41                       | \$ N/A          | \$ .21                         | \$ N/A        |

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

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

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2003                         | 2002       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |                              |            |
| Net income  | \$ 2,003                     | \$ 1,174   |
| Adjustments to reconcile net income to net cash from operating activities |                              |            |
| Net premium amortization on securities                                    | 151                          | 93         |
| Provision for loan losses   | 628                          | 439        |
| Depreciation  | 155                          | 315        |
| FHLB stock dividends  | (97)                         | (72)       |
| ESOP compensation expense   | 358                          | —          |
| Stock award compensation expense  | 95                           | —          |
| Net change in:  |                              |            |
| Accrued interest receivable and other assets                              | (881)                        | 533        |
| Accrued interest payable and other liabilities                            | 820                          | 647        |
| Net cash from operating activities  | 3,232                        | 3,129      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |                              |            |
| Purchase of loans   | —                            | (19,403)   |
| Net increase in loans   | (73,109)                     | (23,726)   |
| Purchase of FHLB stock  | (1,308)                      | —          |
| Purchase of securities available-for-sale                                 | —                            | (10,234)   |
| Principal repayments on mortgage-backed securities                        | 3,718                        | 3,964      |
| Purchase of premises and equipment  | (241)                        | (1,614)    |
| Net cash from investing activities  | (70,940)                     | (51,013)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                               |                              |            |
| Net change in deposits  | 46,312                       | 146,993    |
| Net change in FHLB open line  | 4,400                        | —          |
| Repayments of FHLB advances   | (20,000)                     | (46,000)   |
| Proceeds from FHLB advances   | 43,000                       | 59,000     |
| Purchase of Treasury Stock  | (4,020)                      | —          |
| Dividends paid on common stock  | (550)                        | —          |
| Net cash from financing activities  | 69,142                       | 159,993    |
| Net change in cash and cash equivalents                                   | 1,434                        | 112,109    |
| Cash and cash equivalents at beginning of period                          | 11,506                       | 18,003     |
| Cash and cash equivalents at end of period                                | \$ 12,940                    | \$ 130,112 |

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

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

|   | <u>Common<br/>Stock</u> | <u>APIC</u>      | <u>Retained<br/>Earnings</u> | <u>Treasury<br/>Stock</u> | <u>Unearned<br/>ESOP<br/>Shares</u> | <u>Unearned<br/>Stock<br/>Awards</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income</u> | <u>Total</u>     |
|---|-------------------------|------------------|------------------------------|---------------------------|-------------------------------------|--------------------------------------|---|------------------|
| Balance at January 1, 2003                                    | \$ 53                   | \$ 61,833        | \$ 31,305                    | \$ —                      | \$ (4,571)                          | \$ —                                 | \$ 261  | \$ 88,881        |
| Net income  | —                       | —                | 2,003                        | —                         | —                                   | —                                    | —   | 2,003            |
| Change in unrealized gain on<br>securities available-for-sale | —                       | —                | —                            | —                         | —                                   | —                                    | (137)   | (137)            |
| Issuance of stock awards                                      | 2                       | 2,835            | —                            | —                         | —                                   | (2,837)                              | —   | —                |
| Stock award earned  | —                       | —                | —                            | —                         | —                                   | 95                                   | —   | 95               |
| Purchase of 211,600 shares of<br>treasury stock               | —                       | —                | —                            | (4,020)                   | —                                   | —                                    | —   | (4,020)          |
| ESOP shares earned  | —                       | 104              | —                            | —                         | 254                                 | —                                    | —   | 358              |
| Dividends paid (\$.11 per share)                              | —                       | —                | (550)                        | —                         | —                                   | —                                    | —   | (550)            |
| Balance at June 30, 2003                                      | <u>\$ 55</u>            | <u>\$ 64,772</u> | <u>\$ 32,758</u>             | <u>\$ (4,020)</u>         | <u>\$ (4,317)</u>                   | <u>\$ (2,742)</u>                    | <u>\$ 124</u>   | <u>\$ 86,630</u> |

See accompanying notes to consolidated financial statements.

FIRST PACTRUST BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2003  
(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 June 30, 2003 and December 31, 2002 and for the three-month and six-month periods ended June 30, 2003 and 2002. 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, 2002 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 accounting principles generally accepted in the United States of America.

Interim statements are subject to possible adjustment in connection with the annual audit of the Company for the year ending December 31, 2003. 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 six months ended June 30, 2003 and 2002 are not necessarily indicative of the results to be expected for the full year.

Note 2 – Summary of Significant Accounting Policies

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

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. Significant accounting policies followed by the Company are presented below.

## [Table of Contents](#)

**Use of Estimates in the Preparation of Financial Statements:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Servicing Agent Receivable:** The Bank has contracted with a servicing agent to process payments and service a portion of the Bank's real estate loan portfolio. The servicing agent remits cash receipts within 15 days of the end of each month for loan payments received. These cash amounts are reflected as servicing agent receivable on the consolidated statements of financial condition. During April 2003, loan servicing was brought in-house and the contract with the servicing agent was canceled.

### Note 3 – Conversion to Stock Form of Ownership

On March 1, 2002, the Board of Directors of Pacific Trust Bank ("the Bank") adopted a Plan of Conversion to convert from a federally chartered mutual savings bank to a federally chartered stock savings bank with the concurrent formation of a holding company. The conversion was accomplished through the sale of all of the Bank's stock to the Company and the sale of the Company's stock to the public on August 22, 2002.

In connection with the conversion, the Company issued 5,290,000 shares of common stock for gross proceeds of \$63.5 million, of which \$5.1 million was loaned to the Bank's employee stock ownership plan to purchase stock in the offering. The net proceeds of the offering totaled \$61.7 million. The aggregate purchase price was determined by an independent appraisal. The Bank issued all of its outstanding capital stock to the Company in exchange for one-half of the net proceeds of the offering. The Company accounted for the purchase in a manner similar to a pooling of interests whereby assets and liabilities of the Bank maintain their historical cost basis in the consolidated company.

### Note 4 – Employee Stock Ownership Plan

In connection with the conversion, 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.

[Table of Contents](#)

## Note 5 – Employee Stock Compensation

The Corporation adopted a stock-option based incentive plan during 2003 under the terms of which 529,000 shares of the Corporation's common stock were reserved for issuance. 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.

A summary of the status of the Corporation's stock option plan and changes during 2003 is presented below:

|  | Shares  | Weighted-Average Exercise Price |
|--|---------|---------------------------------|
| Outstanding at beginning of year                           | —       | —                               |
| Granted  | 420,450 | \$ 17.29                        |
| Exercised  | —       | —                               |
| Forfeited  | —       | —                               |
| Outstanding at end of year                                 | 420,450 | \$ 17.29                        |
|  |         | 2003                            |
| Options exercisable at end of year                         |         | —                               |
| Weighted-average fair value of options granted during year |         | \$ 1.49                         |
| Average remaining option term                              |         | 9.8 years                       |

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 for 2003 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.

|                                | June 30, 2003      |                  |
|--------------------------------|--------------------|------------------|
|                                | Three Months Ended | Six Months Ended |
| Net income as reported         | \$ 1,046           | \$ 2,003         |
| Pro forma net income           | 997                | 1,954            |
| Earnings per share as reported |                    |                  |
| Basic and diluted              | .21                | .41              |
| Pro forma earnings per share   |                    |                  |
| Basic and diluted              | .20                | .40              |

## [Table of Contents](#)

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

| Date of grant (2003)                          | April 24 | May 14  | June 24 |
|---|----------|---------|---------|
| Options granted                               | 389,000  | 26,450  | 5,000   |
| Estimated fair value of stock options granted | \$ 1.51  | \$ 1.45 | \$ 1.31 |
| Assumptions used:                             |          |         |         |
| Risk-free interest rate                       | 2.92%    | 2.47%   | 2.21%   |
| Expected option life                          | 5 years  | 5 years | 5 years |
| Expected stock price volatility               | 8.77%    | 7.81%   | 7.18%   |
| Expected dividend yield                       | 1.41%    | 1.29%   | 1.29%   |

Pursuant to its 2003 stock-based incentive plan, the Corporation awarded 165,000 shares of restricted stock during 2003. These shares vest over a five-year period. The unamortized cost of shares not yet earned (vested) is reported as a reduction of shareholders' equity. Compensation expense for restricted stock awards totaled \$95,000 for the six-months ended June 30, 2003.

### Note 6 – Earnings Per Share

Amounts reported as earnings per common share reflect earnings available to common stockholders for the year divided by the weighted average number of common shares outstanding during the year. Earnings per share is calculated beginning with August 22, 2002, the date of the stock conversion. 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 stock awards. Computations for basic and diluted earnings per share are provided below.

|  | June 30,<br>2003      |                     |
|--|-----------------------|---------------------|
|  | Three Months<br>Ended | Six Months<br>Ended |
| Net income as reported                                     | \$ 1,046              | \$ 2,003            |
| Weighted average common shares outstanding                 | 4,879,675             | 4,896,720           |
| Basic earnings per share                                   | \$ .21                | \$ .41              |
| Earnings per share assuming dilution                       |                       |                     |
| Net income available to common shareholders                | \$ 1,046              | \$ 2,003            |
| Weighted average common shares outstanding                 | 4,879,675             | 4,896,720           |
| Dilutive effect of stock options                           | 6,980                 | —                   |
| Dilutive effect of stock awards                            | 2,961                 | —                   |
| Average common shares and dilutive potential common shares | 4,889,616             | 4,896,720           |
| Diluted earnings per share                                 | \$ .21                | \$ .41              |

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## [Table of Contents](#)

The effect of stock options and stock awards was not included in the calculation of diluted earnings per share for the six months ended June 30, 2003 because to do so would have been anti-dilutive.

### **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 June 30, 2003 to its financial condition at December 31, 2002 and the results of operations for the three-month and six-month periods ended June 30, 2003 to the same periods in 2002. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

#### **Comparison of Financial Condition at June 30, 2003 and December 31, 2002**

Our total assets increased by \$72.3 million, or 15.7% to \$532.2 million at June 30, 2003 from \$459.9 million at December 31, 2002. The increase reflected growth in loans receivable funded by an increase in deposits and additional advances from the Federal Home Loan Bank. Net loans increased by \$86.2 million, or 21.4%, to \$489.9 million at June 30, 2003 from \$403.7 million at December 31, 2002. Our increase in loans resulted from increased volume of one- to four- family mortgage loan originations largely due to the continued low interest rate environment. The Company continues to utilize brokers as a primary source of loan growth. The servicing agent receivable decreased \$13.7 million to \$35,000 at June 30, 2003 due to bringing the majority of loan servicing in-house during April 2003.

Total deposits increased by \$46.3 million, or 16.6%, to \$326.0 million at June 30, 2003 from \$279.7 million at December 31, 2002. The increase primarily reflected growth in certificates of deposit, savings accounts and NOW accounts. Certificates of deposit increased \$22.8 million, or 16.6%, to \$159.9 million and savings accounts increased by \$15.8 million or 50.0%. NOW accounts increased by \$5.1 million, or 10.6%. The significant growth in certificates was related to a special promotion that began in the third quarter of 2002 and ended June 30, 2003.

Federal Home Loan Bank advances increased \$27.4 million, or 30.4%, to \$117.5 million at June 30, 2003 from \$90.1 million at December 31, 2002. The additional advances were used to fund loan growth.

## [Table of Contents](#)

Equity decreased \$2.3 million to \$86.6 million at June 30, 2003 from \$88.9 million at December 31, 2002, resulting primarily from the repurchase of 211,600 shares of Company common stock for \$4.0 million and the payment of dividends of \$550,000. These items were partially offset by net income of \$2.0 million and ESOP and stock awards earned totaling \$453,000.

### **Comparison of Operating Results for the Six Months Ended June 30, 2003 and 2002**

**General.** Net income for the six months ended June 30, 2003 was \$2.0 million, an increase of \$829,000, or 70.6%, from the six months ended June 30, 2002. The increase in net income resulted from the fluctuations described below.

**Interest income.** Interest income increased by \$2.9 million, or 28.6%, to \$13.2 million for the six months ended June 30, 2003 from \$10.3 million for the six months ended June 30, 2002. The primary factor for the increase in interest income was the substantial increase in the average loans receivable balance as a result of the refinancing market environment, partially offset by a 90 basis point decrease in the average yield on loans receivable, from 6.57% for the six months ended June 30, 2002 to 5.67% for the same period in 2003 as a result of the refinancing market environment. The majority of the Bank's loans have an adjustable rate feature, and this decrease in yield reflects the downward re-pricing of adjustable rate mortgage loans due to a decline in market rates of interest. The average balance of loans receivable increased \$157.3 million, or 53.6%, from \$293.6 million for the six months ended June 30, 2002 to \$450.9 million for the six months ended June 30, 2003. The increase was primarily the result of loan originations exceeding repayments due to strong demand, reflecting generally lower interest rates in 2003.

Interest income on securities decreased by \$112,000, or 28.2%, to \$285,000 for the six months ended June 30, 2003. The average yield on the securities portfolio was 3.46% for the six months ended June 30, 2003 compared to 4.49% for the same period in 2002, due to generally lower levels of market rates of interest in 2002.

Interest income from other interest-earning assets decreased \$82,000, or 37.8%, to \$135,000 for the six months ended June 30, 2003 from \$217,000 for the six months ended June 30, 2002. The decrease resulted from a decrease in the average balance of interest-earning assets from \$27.0 million to \$8.9 million, which reflected a decrease in federal funds sold as a result of utilizing the cash on hand to fund loan originations. The large average balance of federal funds sold during 2002 was a result of cash received for stock subscriptions being temporarily invested in federal funds sold.

**Interest Expense.** Interest expense increased \$200,000, or 5.0%, to \$4.2 million for the six months ended June 30, 2003 from \$4.0 million for the same period in 2002. The increase in interest expense resulted primarily from an increase in the average balance of deposits from \$266.7 million for the six months ended June 30, 2002 to \$292.6 million for the same period in 2003, and a \$60.2 million increase in the average balance of FHLB advances from \$42.0 million to \$102.2 million for the same periods. This was partially offset by a decrease in the average cost of our interest-bearing liabilities to 2.14% from 2.60%, reflecting the decrease in market rates of interest during the period. Interest expense on deposits decreased \$479,000, or 14.2%, to \$2.9 million for the six months ended June 30, 2003 from \$3.4 million for the same period in

## [Table of Contents](#)

2002. Interest expense on Federal Home Loan Bank advances increased \$679,000, or 105.1%, to \$1.3 million for the six months ended June 30, 2003 from \$646,000 for the six months ended June 30, 2002.

**Net Interest Income.** Net interest income before provision for loan losses increased \$2.7 million, or 43.9%, to \$8.9 million for the six months ended June 30, 2003 from \$6.2 million for the six months ended June 30, 2002. The net interest spread decreased 13 basis points to 3.33% from 3.46% at June 30, 2002, while the net interest margin increased 2 basis points during the period to 3.70%. The increase in net interest income primarily reflects the factors discussed above.

**Provision for Loan Losses.** Provisions for loan losses were charged to operations at a level required to reflect probable incurred credit losses inherent 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, are evaluated individually for impairment.

Provisions of \$628,000 and \$439,000 were made for the six months ended June 30, 2003 and 2002, respectively. The provision increased by \$189,000 reflecting a \$157.2 million, or 53.6%, increase in gross loans, primarily consisting of residential real estate loans. This growth continues to be achieved primarily through the use of independent loan originators. Since the bank did not have a seasoned portfolio in this type of lending and did not have a related loss history to apply to these types of loans, peer group data adjusted for local economic conditions was used to establish our loan loss allowance, resulting in the \$628,000 provision.

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. We 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 decreased to .73% at June 30, 2003 from .78% at June 30, 2002. 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 June 30, 2003 was maintained at a level that represented management's best estimate of losses in the loan portfolio to the extent they were both probable and reasonably estimable.

## [Table of Contents](#)

**Noninterest Income.** Noninterest income increased \$75,000 to \$564,000 from \$489,000 for the six months ended June 30, 2002, reflecting an increase in service charges primarily as a result of the increase in volume of deposits.

**Noninterest Expense.** Noninterest expense increased \$1.1 million, or 25.3%, to \$5.4 million for the six months ended June 30, 2003 from \$4.3 million for the six months ended June 30, 2002. This increase was primarily the result of a \$755,000 increase in salaries and employee benefits, an increase of \$248,000 in other administration expenses and a \$68,000 increase in advertising and professional fees, partially offset by a \$121,000 decrease in occupancy and equipment expense.

Salaries and employee benefits represented 49.8% and 44.8% of total noninterest expense for the six months ended June 30, 2003 and June 30, 2002, respectively. Total salaries and employee benefits increased \$755,000, or 39.0%, to \$2.7 million for the six months ended June 30, 2003 from \$1.9 million for the same period in 2002. The increase was primarily due to \$358,000 in ESOP compensation expense, \$95,000 in stock award plan expense related to the establishment of the plan in the 2nd quarter of 2003, and staffing increases including staffing at the new Rancho Bernardo branch facility. Full time equivalents increased from 84.3 at June 30, 2002 to 97.3 at June 30, 2003.

Advertising and professional fees increased \$68,000 as a result of increased radio advertising and promotional item purchases.

Other administrative expenses increased \$248,000 primarily as a result of increases in various miscellaneous accounts related to the continued growth of the bank

Occupancy and equipment expense decreased \$121,000 as a result of the write off of computer equipment that occurred during 2002, related to the core system conversion completed in January of 2003.

**Income Tax Expense.** Income tax expense increased to \$1.5 million for the six months ended June 30, 2003, from \$790,000 for the six months ended June 30, 2002. This increase was primarily a result of an increase in pre-tax income. The effective tax rate was 42.7% and 40.2% for the six months ended June 30, 2003 and 2002, respectively.

### **Comparison of Operating Results for the Three Months Ended June 30, 2003 and 2002**

**General.** Net income for the three months ended June 30, 2003 was \$1.0 million, an increase of \$336,000, or 47.3%, from the three months ended June 30, 2002. The increase in net income resulted from the fluctuations described below.

**Interest income.** Interest income increased by \$1.5 million, or 28.7%, to \$6.9 million for the three months ended June 30, 2003 from \$5.3 million for the three months ended June 30, 2002. The primary factor for the increase in interest income was the substantial increase in the average loans receivable balance, partially offset by a 92 basis point decrease in the average yield on loans receivable, from 6.58% for the six months ended June 30, 2002 to 5.66% for the same period in 2003 as a result of the refinancing market environment. The majority of the

## [Table of Contents](#)

Bank's loans have an adjustable rate feature, and this decrease in yield reflects the downward re-pricing of adjustable rate mortgage loans due to a decline in market rates of interest. The average balance of loans receivable increased \$168.4 million, or 55.7%, from \$302.6 million for the three months ended June 30, 2002 to \$470.0 million for the quarter ended June 30, 2003. The increase in the balance of loans was primarily the result of loan originations exceeding repayments due to strong demand, reflecting generally lower interest rates in 2003.

Interest income on securities decreased by \$90,000, or 40.7%, to \$131,000 for the three months ended June 30, 2003. The average yield on the securities portfolio was 3.33% for the three months ended June 30, 2003 compared to 4.77% for the same period in 2002, due to generally lower levels of market rates of interest in 2002.

Interest income from other interest-earning assets decreased \$68,000, or 51.1%, to \$65,000 for the three months ended June 30, 2003 from \$133,000 for the three months ended June 30, 2002. The decrease resulted from a decrease in the average balance from \$45.0 million to \$11.3 million, which reflected a decrease in federal funds sold as a result of utilizing the cash on hand to fund loan originations. The large average balance of federal funds sold during 2002 was a result of cash received for stock subscriptions being temporarily invested in federal funds sold.

**Interest Expense.** Interest expense increased \$163,000, or 8.0%, to \$2.2 million for the three months ended June 30, 2003. The increase in interest expense resulted primarily from an increase in the average balance of deposits from \$277.0 million for the three months ended June 30, 2002 to \$292.3 million for the same period in 2003, and a \$69.4 million increase in the average balance of FHLB advances from \$41.0 million to \$110.4 million for the same periods. This was partially offset by a decrease in the average cost of our interest-bearing liabilities to 2.20% from 2.56%, reflecting the decrease in market rates of interest during the period. Interest expense on deposits decreased \$243,000, or 14.3%, to \$1.5 million for the three months ended June 30, 2003 from \$1.7 million for the same period in 2002. Interest expense on Federal Home Loan Bank advances increased \$406,000, or 121.9%, to \$739,000 for the three months ended June 30, 2003 from \$333,000 for the three months ended June 30, 2002.

**Net Interest Income.** Net interest income before provision for loan losses increased \$1.4 million, or 41.5%, to \$4.7 million for the three months ended June 30, 2003 from \$3.3 million for the three months ended June 30, 2002. The net interest spread increased 3 basis points to 3.31% from 3.28% at June 30, 2002, while the net interest margin increased 14 basis points during the period to 3.74%. The increase in net interest income primarily reflects the factors discussed above.

**Provision for Loan Losses.** Provisions for loan losses were charged to operations at a level required to reflect probable incurred credit losses inherent 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

## [Table of Contents](#)

loans, such as multi-family and commercial real estate loans, are evaluated individually for impairment.

Provisions of \$300,000 and \$274,000 were made for the three months ended June 30, 2003 and 2002, respectively. The provision increased by \$26,000 reflecting a \$157.2 million, or 53.6%, increase in gross loans, primarily consisting of residential real estate loans. This growth continues to be achieved primarily through the use of independent loan originators. Since the bank did not have a seasoned portfolio in this type of lending and did not have a related loss history to apply to these types of loans, peer group data adjusted for local economic conditions was used to establish our loan loss allowance.

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. We 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 decreased to .73% at June 30, 2003 from .78% at June 30, 2002. 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 June 30, 2003 was maintained at a level that represented management's best estimate of losses in the loan portfolio to the extent they were both probable and reasonably estimable.

**Noninterest Income.** Noninterest income increased \$69,000 to \$326,000 from \$257,000 for the three months ended June 30, 2002, reflecting an increase in service charges primarily as a result of the increase in volume of deposits.

**Noninterest Expense.** Noninterest expense increased \$781,000, or 37.6%, to \$2.9 million for the three months ended June 30, 2003 from \$2.1 million for the three months ended June 30, 2002. This increase was primarily the result of a \$432,000 increase in salaries and employee benefits, an increase of \$130,000 in other administration expenses and a \$76,000 increase in advertising. Stationary, supplies and postage increased \$40,000. Data processing expense increased \$38,000 and ATM costs increased by \$43,000.

Salaries and employee benefits represented 49.9% and 47.9% of total noninterest expense for the three months ended June 30, 2003 and June 30, 2002, respectively. Total salaries and employee benefits increased \$432,000, or 43.5%, to \$1.4 million for the three months ended June 30, 2003 from \$1.0 million for the same period in 2002. The increase was primarily due to \$189,000 in ESOP compensation expense, \$95,000 in stock award plan expense related to the establishment of the plan in the 2nd quarter of 2003, and staffing increases including staffing at the new Rancho Bernardo branch facility. Full time equivalents increased from 84.3 at June 30, 2002 to 97.3 at June 30, 2003.

## [Table of Contents](#)

Advertising increased \$76,000 as a result of increased radio advertising and promotional item purchases.

Other administrative expenses increased \$130,000 primarily as a result of increases in various miscellaneous accounts related to the continued growth of the bank. In addition, stationary, supplies and postage, data processing expense and ATM costs also increased as a result of the continued growth of the bank.

**Income Tax Expense.** Income tax expense increased to \$785,000 for the three months ended June 30, 2003, from \$493,000 for the three months ended June 30, 2002. This increase was primarily a result of an increase in pre-tax income. The effective tax rate was 42.9% and 41.0% for the three months ended June 30, 2003 and 2002, respectively.

### **Liquidity and Commitments**

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

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits 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 June 30, 2003, the total approved loan origination commitments outstanding amounted to \$26.7 million. At the same date, unused lines of credit were \$19.0 million and outstanding letters of credit totaled \$10,000. Securities scheduled to mature in one year or less at June 30, 2003 totaled \$664,000. Certificates of deposit scheduled to mature in one year or less at June 30, 2003, totaled \$118.9 million. Although the average cost of deposits has decreased throughout 2003, management's policy is to maintain deposit rates at levels that are competitive

## [Table of Contents](#)

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 has the ability at June 30, 2003 to borrow an additional \$32.3 million from the Federal Home Loan Bank of San Francisco as a funding source to meet commitments and for liquidity purposes.

### **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 \$86.6 million at June 30, 2003, or 16.3% of total assets on that date. As of June 30, 2003, the Bank exceeded all capital requirements of the Office of Thrift Supervision. The Bank’s regulatory capital ratios at June 30, 2003 were as follows: core capital 11.29%; Tier 1 risk-based capital, 19.88%; and total risk-based capital, 21.05%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0%, and 10.0%, respectively.

### **New Accounting Pronouncements**

The Financial Accounting Standards Board (FASB) recently issued two new accounting standards, Statement 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, and Statement 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equities*, both of which generally become effective in the quarter beginning July 1, 2003. Because the Company does not have these instruments, the new accounting standards will not materially affect the Company’s operating results or financial condition.

### **Impact of Inflation**

The consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 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 Sensitivity Measure exceeds 2% would be required to deduct an interest rate risk component in calculating its total capital for purposes of the risk-based capital requirement. As of March 31, 2003, the latest date for which information is available, the Bank's Sensitivity Measure, as measured by the OTS, resulting from a 200 basis point increase in interest rates was 7% and would result in a \$5.2 million decrease in the NPV of the Bank. Accordingly, increases in interest rates would be expected to have a negative impact on the Bank's operating results. 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 March 31, 2003, 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 March 31, 2003, the yield on the six-month Treasury bill was 1.20%. As a result, the net portfolio value analysis was unable to produce results for the minus 200 and minus 300 basis point scenario for the quarter ended March 31, 2003.

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

| Change in Rates | Net Portfolio Value |           |          | NPV as a % of<br>PV of Assets |           |
|-----------------|---------------------|-----------|----------|-------------------------------|-----------|
|                 | \$ Amount           | \$ Change | % Change | NPV Ratio                     | Change    |
| +300 bp         | 64,934              | (-9,503)  | (-13)%   | 13.00%                        | (-134) bp |
| + 200 bp        | 69,279              | (-5,157)  | (-7)%    | 13.66%                        | (-68) bp  |
| +100 bp         | 72,545              | (-1,891)  | (-3)%    | 14.12%                        | (-22) bp  |
| 0 bp            | 74,436              | (0)       | (0)%     | 14.34%                        | 0 bp      |
| -100 bp         | 74,772              | (336)     | (0)%     | 14.30%                        | (-4) bp   |

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

**ITEM 4. CONTROLS AND PROCEDURES**

- (a) An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, "the Act") as of June 30, 2003, was carried out under the supervision and with the participation of our Chief Executive Officer, Chief Financial Officer and several other members of our senior management. The Chief Executive Officer and Chief 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 management (including the Chief Executive Officer and Chief 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 our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended June 30, 2003, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures and assess ways to improve its controls and procedures over time and to correct any deficiencies that it 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 the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures."

- (b) Changes in Internal Controls: In the quarter ended June 30, 2003, the Company did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

**PART II - - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

None

**ITEM 2. CHANGES IN SECURITIES.**

None

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

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS.**

## [Table of Contents](#)

The Annual Meeting of Shareholders for First PacTrust Bancorp, Inc. was held on April 24, 2003 in Bonita, California. At that meeting the shareholders elected the following persons to three-year terms to the Board of Directors: Hans R. Ganz by a vote of 4,930,196 for and 55,695 withheld, and Donald M. Purdy by a vote of 4,929,601 for and 56,290 withheld. Alvin L. Majors, Donald A. Whitacre, Francis P. Burke and Kenneth W. Scholz also continue to serve as directors after the meeting. Also approved was the adoption of the First PacTrust Bancorp, Inc. 2003 Stock Option and Incentive Plan, by a vote of 3,648,447 for, 155,610 against, 5,413 abstained and 1,176,069 broker non-votes, and First PacTrust Bancorp, Inc. 2003 Recognition and Retention Plan, by a vote of 3,591,447 for, 200,162 against, 18,213 abstained and 1,176,069 broker non-votes.

### **ITEM 5. OTHER INFORMATION.**

None

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.**

#### (a) Exhibits

31.1 Certification of CEO pursuant to Rule 13a-14(a)/15d-14(a).

31.2 Certification of Senior Vice President pursuant to Rule 13a-14(a)/15d-14(a).

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer (attached as an exhibit and incorporated herein by reference).

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Senior Vice President (attached as an exhibit and incorporated herein by reference).

Reports on Form 8-K. On August 1, 2003, the Company filed a current report on Form 8-K to announce second quarter earnings

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.

Date: August 11, 2003

FIRST PACTRUST BANCORP, INC.

/s/ HANS R. GANZ

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Hans R. Ganz  
President and Chief Executive Officer

Date: August 11, 2003

/s/ REGAN GALLAGHER

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

I, Hans Ganz, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of First PacTrust Bancorp, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-145(e) and 15d-145(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 11, 2003

/s/ HANS GANZ

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Hans Ganz  
President and Chief Executive Officer

I, Regan Gallagher, certify that:

- 1) I have reviewed this report on Form 10-Q of First PacTrust Bancorp, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-145(e) and 15d-145(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2003

/s/ REGAN GALLAGHER

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Regan Gallagher  
Vice President / Contoller  
(Principal Financial and Accounting Officer)

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,**

**As adopted pursuant to**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First PacTrust Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on August 11, 2003 (the "Report"), I, Hans R. Ganz, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of June 30, 2003 and December 31, 2002 and results of operations of the Company for the six months ended June 30, 2003 and 2002.

/s/ HANS R. GANZ

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Name: Hans R. Ganz

Title: President and Chief Executive Officer

Date: August 11, 2003

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,**

**As adopted pursuant to**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First PacTrust Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on August 11, 2003, (the "Report"), I, Regan Gallagher, Controller (Principal Financial and Accounting Officer) of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of June 30, 2003 and December 31, 2002 and results of operations of the Company for the six months ended June 30, 2003 and 2002.

/s/ REGAN GALLAGHER

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Name: Regan Gallagher

Title: Senior Vice President/ Controller

(Principal Financial and Accounting Officer)

Date: August 11, 2003