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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, 2009

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its Corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (p232.405) of this chapter) during the proceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated Filer ¨	Accelerated Filer ¨	Non-accelerated Filer ¨	Smaller reporting company x

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

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

As of November 6, 2009 the Registrant had 4,248,135 outstanding shares of common stock.

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FIRST PACTRUST BANCORP, INC.

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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 Company and the Bank to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on the operations and future prospects of the Company, the Bank, and the Bank s wholly owned subsidiaries include, but are not limited to, changes in: interest rates; the economic health of the local real estate market; general economic conditions; legislative/regulatory provisions; monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board; the quality or composition of the loan and securities portfolios; demand for loan products; deposit flows; competition; demand for financial services in the Bank s market area; and impact of new accounting pronouncements. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

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ITEM 1 FINANCIAL STATEMENTS

First PacTrust Bancorp, Inc.

Consolidated Statements of Financial Condition

(In thousands of dollars except share data)

(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 7,501	$ 6,629
Federal funds sold	14,175	8,835
Interest-bearing deposits	3,714	3,773
Total cash and cash equivalents	25,390	19,237
Interest-bearing deposit in other financial institution		893
Securities available-for-sale	48,751	17,565
Federal Home Loan Bank stock, at cost	9,364	9,364
Loans receivable, net of allowance of $11,188 at September 30, 2009 and $18,286 at December 31, 2008	767,970	793,045
Accrued interest receivable	3,665	4,008
Real estate owned, net	5,277	158
Premises and equipment, net	4,268	4,448
Bank owned life insurance investment	17,846	17,565
Other assets	11,922	10,237
Total assets	$ 894,453	$ 876,520
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Noninterest-bearing	$ 14,580	$ 14,697
Interest-bearing	622,545	583,480
Total deposits	637,125	598,177
Advances from Federal Home Loan Bank	150,000	175,000
Due to broker	5,875	
Accrued expenses and other liabilities	4,439	4,620
Total liabilities	797,439	777,797
SHAREHOLDERS EQUITY		
Preferred stock, $.01 par value per share, $1,000 per share liquidation preference, 5,000,000 shares authorized, 19,300 shares issued and outstanding at September 30, 2009 and December 31, 2008	19,085	19,068
Common stock, $.01 par value per share, 20,000,000 shares authorized; 5,445,000 shares issued	54	54
Additional paid-in capital	68,076	68,155
Retained earnings	36,573	38,496
Treasury stock, at cost (September 30, 2009 - 1,196,865 shares, December 31, 2008 - 1,192,832 shares)	(25,771)	(25,736)
Unearned employee stock ownership plan shares (September 30, 2009 - 95,220 shares, December 31, 2008 - 126,960 shares)	(1,142)	(1,523)
Accumulated other comprehensive income	139	209

Total shareholders equity	97,014	98,723
Total liabilities and shareholders equity	$ 894,453	$ 876,520

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Income (Loss)

(In thousands of dollars except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest and dividend income				
Loans, including fees	$ 10,212	$ 11,513	$ 32,507	$ 33,721
Securities	1,278		3,093	75
Dividends and other interest-earning assets	25	132	73	418
Total interest income	11,515	11,645	35,673	34,214
Interest expense				
Deposits	3,036	4,031	10,201	13,413
Federal Home Loan Bank advances	1,212	1,630	4,033	3,985
Total interest expense	4,248	5,661	14,234	17,398
Net interest income	7,267	5,984	21,439	16,816
Provision for loan losses	2,709	1,479	12,395	7,370
Net interest income after provision for loan losses	4,558	4,505	9,044	9,446
Noninterest income				
Customer service fees	343	412	1,025	1,186
Mortgage loan prepayment penalties	11		21	47
Income from bank owned life insurance	95	169	283	485
Other income	3	4	16	10
Total noninterest income	452	585	1,345	1,728
Noninterest expense				
Salaries and employee benefits	1,625	1,616	5,012	5,160
Occupancy and equipment	494	454	1,474	1,360
Advertising	43	73	138	256
Professional fees	128	184	427	440
Stationary, supplies, and postage	86	106	261	298
Data processing	255	268	751	791
ATM costs	91	96	268	298
FDIC expense	337	119	1,231	357
Loan servicing & foreclosure	20	41	575	169
Operating loss on equity investment	87	89	261	267
Other general and administrative	278	260	841	761
Total noninterest expense	3,444	3,306	11,239	10,157
Income/(loss) before income tax expense/(benefit)	1,566	1,784	(850)	1,017
Income tax expense/(benefit)	71	340	(452)	203
Net income/(loss)	$ 1,495	$ 1,444	$ (398)	$ 814

Dividends and discount on preferred stock	$	251	$		$	752	$	
Net income/(loss) available to common shareholders.		1,244		1,444		(1,150)		814
Basic	$	.30	$	.35	$	(.28)	$	.20
Diluted	$	.30	$	.35	$	(.28)	$	.20

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Cash Flows

(In thousands of dollars) (Unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	$ (398)	$ 814
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Provision for loan losses	12,395	7,370
Net accretion of securities	(1,431)	(53)
Depreciation and amortization	334	337
Employee stock ownership plan compensation expense	231	477
Stock option compensation expense	39	144
Stock award compensation expense	71	318
Bank owned life insurance income	(283)	(485)
Operating loss on equity investment	261	267
Impairment of securities	15	
Loss on sale of property and equipment	2	
Deferred income tax (benefit)/expense	(1,320)	(262)
Write down of other real estate owned		89
Interest capitalized on negative amortizing loans	(16)	(534)
Federal Home Loan Bank stock dividends		(306)
Net change in:		
Deferred loan costs	181	(400)
Accrued interest receivable	526	(158)
Other assets	(207)	(234)
Accrued interest payable and other liabilities	6,059	(373)
Net cash provided by operating activities	16,459	7,011
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities, calls, and principal repayments of securities available-for-sale	7,500	4,476
Purchases of securities available-for-sale	(37,572)	
Loan originations and principal collections, net	(312)	(89,081)
Redemption/(purchase) of Federal Home Loan Bank stock		(2,130)
Net decrease in other interest bearing deposits	893	99
Proceeds from sale of real estate owned	7,550	432
Additions to premises and equipment	(156)	(96)
Net cash used in investing activities	(22,097)	(86,300)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	38,948	1,585
Net change in Federal Home Loan Bank open line		(28,400)
Repayments of Federal Home Loan Bank advances	(45,000)	(45,000)
Proceeds from Federal Home Loan Bank advances	20,000	145,000
Purchase of treasury stock	(28)	(1,641)
Issuance costs on preferred stock	(13)	
Tax loss from RRP shares vesting	(46)	(27)
Dividends paid on preferred stock	(722)	
Dividends paid on common stock	(1,348)	(2,321)
Net cash provided by financing activities	11,791	69,196

Net change in cash and cash equivalents	6,153	(10,093)
Cash and cash equivalents at beginning of period	19,237	21,796
Cash and cash equivalents at end of period	$ 25,390	$ 11,703
Supplemental disclosures of cash flow information		
Transfers of loans to other real estate owned	12,827	867
Dure to broker	5,875	

See accompanying notes to consolidated financial statements.

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First PacTrust Bancorp, Inc.

Consolidated Statements of Equity

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

(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned ESOP	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2008	$	$ 54	$ 67,537	$ 42,192	$ (23,685)	$ (2,031)	$ 8	$ 84,075
Comprehensive income:								
Net loss				(529)				(529)
Change in net unrealized gain (losses) on securities available-for-sale, net of reclassification and tax effects							201	201
Total comprehensive loss								(328)
Forfeiture and retirement of RRP			4		(4)			
ESOP forfeitures used to reduce ESOP contribution			(35)					(35)
Stock option compensation expense			167					167
Stock awards earned			369					369
Issuance of stock awards			(131)		131			
Issuance of 19,300 shares of preferred stock, net of issuance costs of $42	19,258							19,258
Issuance of warrants for 280,795 shares of common stock and amortization of preferred stock discount	(190)		193	(3)				
Purchase of 149,924 shares of treasury stock					(2,178)			(2,178)
Employee stock ownership plan shares earned			78			508		586
Tax benefit/(loss) of RRP shares vesting			(27)					(27)
Dividends declared ($.74 per common share)				(3,058)				(3,058)
Preferred stock dividends				(106)				(106)
Balance at December 31, 2008	19,068	54	68,155	38,496	(25,736)	(1,523)	209	98,723
Comprehensive income (loss):								
Net loss				(398)				(398)
Change in net unrealized gain (losses) on securities available-for-sale, net of reclassification and tax effects							(70)	(70)
Total comprehensive loss								(468)
Forfeiture and retirement of stock			7		(7)			
Stock option compensation expense			39					39
Stock awards earned			71					71
Additional issuance costs on preferred stock	(13)							(13)
Amortization of preferred stock discount	30			(30)				
Purchase of 3,633 shares of treasury stock					(28)			(28)
Employee stock ownership plan shares earned			(150)			381		231
Tax benefit/(loss) of RRP shares vesting			(46)					(46)

Dividends declared ($.20 per common share)				(773)				(773)
Preferred stock dividends				(722)				(722)
Balance at September 30, 2009	$ 19,085	$ 54	$ 68,076	$ 36,573	$ (25,771)	$ (1,142)	$ 139	$ 97,014

See accompanying notes to consolidated financial statements.

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FIRST PACTRUST BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Amounts in thousands of dollars, except share and per share data)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of First PacTrust Bancorp, Inc. (the Company) and its wholly owned subsidiary Pacific Trust Bank (the Bank) as of September 30, 2009 and December 31, 2008 and for the three and nine month periods ended September 30, 2009 and September 30, 2008. Significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission. The December 31, 2008 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, 2009. In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial position and consolidated results of operations for the periods presented.

The results of operations for the three and nine month periods ended September 30, 2009 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 principal business of the Company is the ownership of the Bank. The Bank is a federally chartered stock savings bank and a member of the Federal Home Loan Bank (FHLB) system, which maintains insurance on deposit accounts with the Savings Association Insurance Fund (SAIF) of the Federal Deposit Insurance Corporation.

The Bank is engaged in the business of retail banking, with operations conducted through its main office and eight branches located in San Diego and Riverside counties. There are no significant concentrations of loans to any one industry or customer. However, the customer s ability to repay their loans is dependent on the real estate market and general economic conditions in the area.

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

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

Accounting for Uncertainty in Income Taxes (ASC 740): A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company has approximately $109 thousand of total gross unrecognized tax benefits at September 30, 2009, which represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to examination by U.S. Federal taxing authorities through 2005 and for all state income taxes through 2003. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company had $0 accrued for interest and penalties at September 30, 2009.

New Accounting Pronouncements: On July 1, 2009, the FASB s GAAP Codification became effective as the sole authoritative source of US GAAP. This codification reorganizes current GAAP for non-governmental entities into a topical index to facilitate accounting research and to provide users additional assurance that they have referenced all related literature pertaining to a given topic. Existing GAAP prior to the Codification was not altered in compilation of the GAAP Codification. The GAAP Codification encompasses all FASB Statements of Financial Accounting Standards (SFAS), Emerging Issues Task Force (EITF) statements, FASB Staff Positions

(FSP), FASB Interpretations (FIN), FASB Derivative Implementation Guides (DIG), American Institute of Certified Public Accountants (AICPA) Statement of Positions (SOPS), Accounting Principals Board (APB) Opinions and Accounting Research Bulletins (ARBs) along with the remaining body of GAAP effective as of June 30, 2009. Financial Statements issued for all interim and annual periods ending after September 15, 2009 will need to reference accounting guidance embodied in the Codification as opposed to referencing the previously authoritative pronouncements. Accounting literature included in the codification is referenced by Topic, Subtopic, Section and paragraph.

In June 2009, the FASB issued SFAS No. 166, Accounting for the Transfer of Financial Assets and Amendment of FASB Statement No. 140 Instruments (SFAS 166). Under FASB s Codification at ASC 105-10-65-1-d, SFAS 166 will remain authoritative until integrated into the FASB Codification. SFAS 166 removes the concept of a special purpose entity (SPE) from Statement 140 and removes the exception of applying FASB Interpretation 46 Variable Interest Entities, to Variable Interest Entities that are SPEs. It limits the circumstances in which a transferor derecognizes a financial asset. SFAS 166 amends the requirements for the transfer of a financial asset to meet the requirements for sale accounting. The statement is effective for all interim and annual periods beginning after November 15, 2009. The Company does not expect the adoption to have a material impact on the Company s financial condition, results of operations or cash flows.

In June 2009 the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). Under FASB s Codification at ASC 105-10-65-1-d, SFAS 167 will remain authoritative until integrated into the FASB Codification. SFAS 167 amends Interpretation 46(R) to require an enterprise to perform an analysis to determine whether the enterprise s variable interest give it a controlling financial interest in the variable interest entity. SFAS 167 is effective for all interim and annual periods beginning after November 15, 2009. The Company does not expect the adoption to have a material impact on the Company s financial condition, results of operations or cash flows.

In December 2007, the FASB issued ASC 805, Business Combinations, which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. ASC 805 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard did not have a material effect on the Corporation s results of operations or financial position.

In June 2008, ASC 260-10 Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities was issued, which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method of FASB Statement No. 128, Earnings Per Share. ASC 260-10 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This topic was effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented were to be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this topic. The adoption of this topic did not have a material impact on the current or comparative period earnings per share calculation.

In April 2009, the FASB issued ASC 320-10-65, Recognition and Presentation of Other-Than-Temporary Impairments, which amends existing guidance for determining whether impairment is other-than-temporary for debt securities. The topic requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, the topic expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This topic is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this topic did not have a material effect on the results of operations or financial position.

In April 2009, the FASB issued ASC 820-10, Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This topic emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The topic provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The topic also requires increased disclosures. This topic is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The adoption of this topic did not have a material effect on the results of operations or financial position.

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In April 2009, the FASB issued Staff Position ASC 825-10, Interim Disclosures about Fair Value of Financial Instruments. This topic amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. This topic is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this topic did not have a material effect on the results of operations or financial position.

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 is being repaid by the ESOP with funds from the Bank s contributions to the ESOP and earnings on ESOP assets. Principal payments are scheduled to occur over a ten-year period. Dividends on unallocated and/or unearned shares first reduce accrued interest and second reduce principal.

NOTE 4 EMPLOYEE STOCK COMPENSATION

Stock Options

A Stock Option Plan (SOP) provides for the issuance of options to directors, officers, and employees. The Company adopted the SOP in April of 2003 under the terms of which up to 529,000 shares of the Company s common stock may be awarded. The options become exercisable in equal installments over a five-year period beginning on their one year anniversary after the date of grant. The options expire ten years from the date of grant. As of September 30, 2009, the Company had 466,196 exercisable options outstanding. There were no options granted during the nine months ended September 30, 2009. There were 800 shares forfeited during the nine months ended September 30, 2009 and 1,200 shares forfeited during the nine months ended September 30, 2008.

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

The following table represents stock option activity during the nine months ended September 30, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of period	483,196	$ 18.33		
Granted				
Exercised				
Forfeited or expired	(800)	20.29		
Outstanding at end of period	482,396	$ 18.32	4.01	$
Options exercisable at end of period	466,196	$ 18.24	3.89	$

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. ASC 718 and 505 requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 5% for senior management and the board of directors and 45% for all other employees. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. The Company recorded stock compensation expense of $39 thousand and $144 thousand as salary and employee benefits expense during the nine months ended September 30, 2009 and September 30, 2008 respectively. As of September 30, 2009, there was a total of $32 thousand of total unrecognized compensation costs related to 16,200 nonvested options in the plan.

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Options outstanding at September 30, 2009 were as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$17 - $22	458,396	3.92	17.88	447,996	17.90
$22 - $25					
$25 - $29	24,000	5.68	26.88	18,200	26.79
Outstanding at quarter end	482,396			466,196	

Recognition and Retention Plan

A Recognition and Retention Plan (RRP) provides for the issuance of shares to directors, officers, and employees. Pursuant to its 2003 stock-based incentive plan, the Company granted 220,600 shares of RRP awards since the inception of the plan. There were no shares granted during the nine months ended September 30, 2009. There were 400 shares forfeited during the nine months ended September 30, 2009 and 200 shares forfeited during the nine months ended September 30, 2008. Compensation expense for RRP awards totaled approximately $71 thousand for the nine months ended September 30, 2009 and $318 thousand for the nine months ended September 30, 2008. As of September 30, 2009, there was a total of $72 thousand unrecognized compensation cost related to 4,640 nonvested RRP awards granted under the plan.

As described in Note 14 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, the plan allows for the issuance of RRP awards that may not be sold or otherwise transferred until the restrictions have lapsed. The unearned stock-based compensation related to these awards is being amortized to compensation expense over the vesting period (generally five years). The share based expense for these awards was determined based on the market price of our stock at the date of grant applied to the total numbers of shares that were anticipated to fully vest and then amortized over the vesting period. ASC 718 and 505 requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock compensation expense was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 6%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

NOTE 5 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share were computed by dividing net income/(loss) by the weighted average number of shares outstanding. Diluted earnings/(loss) per share were computed by dividing net income/(loss) 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/(loss) per share are provided below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Basic				
Net income/(loss)	$ 1,495	$ 1,444	$ (398)	$ 814
Less: Dividends on preferred stock	(241)	0	(722)	0
Less Imputed dividends	(10)	0	(30)	0
Net income/(loss) available to common shareholders	$ 1,244	$ 1,444	$ (1,150)	$ 814
Weighted average common shares outstanding	4,162,914	4,150,217	4,152,727	4,164,316
Basic earnings/(loss) per share	$ .30	$ .35	$ (.28)	$ .20

Diluted				
Net income/(loss) available to common shareholders	$ 1,244	$ 1,444	$ (1,150)	$ 814
Weighted average common shares outstanding for basic earnings per common share	4,162,914	4,150,217	4,152,727	4,164,316
Add: Dilutive effects of stock options	0	0	0	0
Add: Dilutive effects of stock awards	0	0	0	0
Add: Dilutive effects of assumed exercised common stock warrants	0	0	0	0
Average shares and dilutive potential common shares				7
	4,162,914	4,150,217	4,152,72	4,164,316
Diluted earnings/(loss) per common share	$ .30	$ .35	$ (.28)	$ .20

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All outstanding options, stock awards and outstanding warrants were not considered in computing diluted earnings per common share for the period ending September 30, 2009 because they were anti-dilutive. They were anti-dilutive since the exercise prices were greater than the average market price of the common stock. Stock options for 483,616 shares of common stock were not considered in computing diluted earnings per common share for the period ending September 30, 2008 because they were anti-dilutive.

NOTE 6 FAIR VALUE

Fair Value Hierarchy. ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

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

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

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

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

Impaired Loans. The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

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

Assets and Liabilities Measured on a Recurring and Non Recurring Basis

Available for sale securities are measured at fair value on a recurring basis, impaired loans and real estate owned are measured at fair value on a non-recurring basis.

	Fair Value Measurements at September 30, 2009 Using		
	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Assets			
U.S. government sponsored entities and agency securities (recurring)		$ 5,160	
Residential mortgage-backed securities (recurring)		$ 43,591	
Impaired loans (non recurring)			$ 42,244
Real estate owned assets (non recurring)			$ 5,277

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The following represent impairment charges recognized during 2009:

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $47.2 million, net of a valuation allowance of $5.0 million at September 30, 2009, and prior charge-offs in the amount of $12.3 million. During the quarter and nine month periods ended September 30, 2009, a provision of $2.0 million and $4.3 million was made for these loans, net of charge-offs previously provided, respectively.

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets (Level One)	Significant Other Observable Inputs (Level Two)	Significant Unobservable Inputs (Level Three)
Assets			
Residential mortgage-backed securities securities (recurring)		$ 17,565	
Impaired loans (non recurring)			$ 25,956
Real estate owned assets (non recurring)			$ 158

At December 31, 2008, impaired loans had a carrying amount of $39.7 million, net of a valuation allowance of $13.8 million. During the year ended December 31, 2008, a provision of $12.1 million was made for those loans.

In accordance with ASC 825-10, the carrying amounts and estimated fair values of financial instruments, at September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 25,390	$ 25,390	$ 19,237	$ 19,237
Interest-bearing deposits in other financial institutions			893	893
Securities available-for-sale	48,751	48,751	17,565	17,565
FHLB stock	9,364	N/A	9,364	N/A
Loans receivable, net	767,970	773,685	793,045	800,422
Accrued interest receivable	3,665	3,665	4,008	4,008
Financial liabilities				
Deposits	$ 637,125	639,184	$ 598,177	$ 601,262
Advances from the FHLB	150,000	153,256	175,000	179,761
Accrued interest payable	373	373	583	583

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits in other financial institutions, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material (or is based on the current fees or cost that would be charged to enter into or terminate such arrangements).

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NOTE 7 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale portfolio at September 30, 2009 and the corresponding amounts of unrealized gains and losses therein:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for sale				
U.S. government-sponsored entities and agencies	$ 5,167		$ (7)	$ 5,160
Residential mortgage-backed securities	43,348	515	(272)	43,591
Total available-for-sale Securities	$ 48,515	$ 515	$ (279)	$ 48,751

The fair value of the investment securities portfolio in the table above is shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. All of the Company s mortgage-backed securities are available-for-sale and have varying maturity dates. The Company s agency security has a fixed maturity date of May 2011.

The following table summarizes the amortized cost and fair value of the available-for-sale portfolio at December 31, 2008 and the corresponding amounts of unrealized gains and losses therein:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for sale				
Residential mortgage-backed securities	17,210	438	(83)	17,565
Total available-for-sale securities	$ 17,210	$ 438	$ (83)	$ 17,565

The following table summarizes the investment securities with unrealized losses at September 30, 2009 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
U.S. government-sponsored entities and agencies	$ 5,160	$ (7)	$	$	$ 5,160	$ (7)
Residential mortgage-backed securities	12,284	(272)			12,284	(272)
Total available-for-sale	$ 17,444	$ (279)	$	$	$ 17,444	$ (279)

During the nine months ended September 30, 2009, the Company determined that securities with a book value of $15 thousand was other-than-temporarily impaired due to current market conditions and the restricted ability to sell the security and was written off. There were no sales or calls of securities during the nine months ended September 30, 2009 and 2008.

The following table summarizes the investment securities with unrealized losses at December 31, 2008 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
Residential mortgage-backed securities	5,186	(83)			5,186	(83)
Total available-for-sale	$ 5,186	$ (83)	$	$	$ 5,186	$ (83)

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Other-Than-Temporary-Impairment

Management evaluates securities for other-than-temporary impairment (OTTI) on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under Statement of Financial Accounting Standards ASC 320, *Accounting for Certain Investments in Debt and Equity Securities*. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in ASC 325, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets.*

In determining OTTI under the ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance provided by ASC 325 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the ASC 325 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

As of September 30, 2009, the Company s security portfolio consisted of seventeen securities, six of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s mortgage-backed and other securities, as discussed below.

At September 30, 2009, approximately 12%, or $5.2 million, of the mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Ginnie Mae, institutions which the government has affirmed its commitment to support. Because the $7 thousand decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2009.

The Company s mortgage-backed securities portfolio that are in a loss position had a market value of $12.3 million with unrealized losses of approximately $272 thousand at September 30, 2009. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of ASC 325. The Company monitors to insure it has adequate credit support and as of September 30, 2009, the Company believes there is no OTTI and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

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NOTE 8 Preferred Stock

On November 21, 2008, as part of the United States Department of the Treasury s (the Treasury) Capital Purchase Program made available to certain financial institutions in the U.S. pursuant to the Emergency Economic Stabilization Act of 2008 (EESA), the Company and the Treasury entered into a Letter Agreement including the Securities Purchase Agreement Standard Terms Incorporated therein (the Purchase Agreement) pursuant to which the Company issued to the Treasury in exchange for aggregate consideration of $19.3 million, (i) 19,300 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $0.01 with a liquidation preference of $1,000 per share (the Series A Preferred Stock), and (ii) a warrant (the Warrant) to purchase up to 280,795 shares (the Warrant Common Stock), of the Company s common stock, par value $0.01 per share, with an exercise price of $10.31 per share.

The proceeds from the Series A Preferred Stock qualifies as Tier 1 capital to the extent that the proceeds are infused into the Bank, and pays cumulative cash dividends quarterly at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series A Preferred Stock is non-voting, other than class voting rights on certain matters that could adversely affect the Series A Preferred Stock. The Series A Preferred Stock may be redeemed by the Company at par at any time, subject to Treasury consulting with our primary federal regulator, the OTS. Subject to certain limited exceptions, until November 21, 2011, or such earlier time as all Series A Preferred Stock has been redeemed or transferred by Treasury, the Company will not, without Treasury s consent, be able to increase its dividend rate per share of common stock or repurchase its common stock other than for employee tax liability sales.

The Warrant is immediately exercisable and has a 10-year term. The Treasury will not exercise voting power with respect to any shares of Warrant Common Stock. If the Company receives aggregate gross cash proceeds of not less than $19.3 million from one or more Qualified Equity Offerings on or prior to November 21, 2009, the number of shares of Warrant Common Stock underlying the Warrant then held by Treasury will be reduced by one half of the original number of shares underlying the Warrant.

Upon receipt of the aggregate consideration from the Treasury on November 21, 2008, the Company allocated $19.3 million proceeds on a pro rata basis to the Series A Preferred Stock and the Warrant based on relative fair values. In estimating the fair value of the Warrant, the Company utilized the Black-Scholes model which includes assumptions regarding the Company s common stock prices, stock price volatility, dividend yield, the risk free interest rate and the estimated life of the Warrant. The fair value of the Series A Preferred Stock was determined using a discounted cash flow methodology and a discount rate of 13.0%. As a result, the Company assigned $193 thousand of the aggregate proceeds to the Warrant and $19.1 million to the Series A Preferred Stock. The value assigned to the Series A Preferred Stock will be amortized up to the $19.3 million liquidation value of the Series A Preferred Stock, with the cost of such amortization being reported as additional preferred stock dividends. This results in a total dividend with a consistent effective yield of 8.41% over a five year period, which is the expected life of the Series A Preferred Stock.

In addition**,** the Purchase Agreement (i) grants the holders of the Series A Preferred Stock, the Warrant and the Warrant Common Stock certain registration rights, (ii) subjects the Company to certain of the executive compensation limitations included in the EESA and (iii) allows the Treasury to unilaterally amend any of the terms of the Purchase Agreement to the extent required to comply with any changes in applicable federal statutes.

On December 19, 2008, the Company filed a registration statement with the Securities and Exchange Commission (the Commission) for the purpose of registering the Warrant and the Warrant Common Stock in order to permit the sale of such securities by the U.S. Treasury at any time after effectiveness of the registration statement. On February 3, 2009, the registration statement was deemed effective by the Commission.

NOTE 9 Subsequent Events

As defined in ASC 855-10, subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or available to be issued. Financial statements are considered issued when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with GAAP. The Company has evaluated subsequent events through November 6, 2009, which is the date that the Company s financial statements are being issued.

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

The following discussion compares the financial condition of First PacTrust Bancorp, Inc. (the Company), at September 30, 2009, to its financial condition at December 31, 2008, and the results of operations for the three months and nine months ended September 30, 2009 to the same periods in 2008. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

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

Comparison of Financial Condition at September 30, 2009 and December 31, 2008

Assets. The Company s total assets increased by $17.9 million, or 2.1%, to $894.5 million at September 30, 2009 from $876.5 million at December 31, 2008. The increase primarily reflected the growth in the balance of available-for-sale securities portfolio in the amount of $31.2 million, an increase in total cash and cash equivalents of $6.2 million, and an increase in other real estate owned of $5.1 million, reduced by a decrease in loans of $25.1 million.

Investments. Securities classified as available-for-sale of $48.8 million at September 30, 2009 increased $31.2 million from December 31, 2008 due to the purchase of U.S. agency debentures and mortgage-backed securities during the period totaling $37.6 million.

Loans. Loans receivable, net of valuation allowances, decreased by $25.1 million, or 3.2%, to $768.0 million at September 30, 2009 from $793.0 million at December 31, 2008. This was the result of loan principal repayments, charge offs and foreclosures exceeding loan production during the nine months ended September 30, 2009. Loan production for the period ended September 30, 2009 was $54.4 million. The loan production was primarily attributable to growth in the Company s Green account loan product. The Company s ability to originate loans has been largely unaffected by the turmoil in the secondary mortgage markets given that all loans originated are kept in portfolio. The Company s strong capital ratios coupled with being a portfolio lender has allowed the Company to take advantage of the current market and compete with other lenders who have liquidity or capital constraints and have reduced lending operations.

The following table presents the composition of the Company s loan portfolio in thousands of dollars and in percentages as of the dates indicated.

	September 2009		December 2008	
	Amount	**Percent**	**Amount**	**Percent**
Real Estate				
One- to four-family	$ 432,347	55.66%	$ 460,316	56.92%
Commercial and multi-family	89,908	11.57	98,062	12.12
Construction	2,472	0.32	17,835	2.21
Consumer				
Real estate secured-first trust deeds (Green acct)*	212,431	27.34	192,586	23.81
Real estate secured-second trust deeds (Green acct)*	8,593	1.11	8,252	1.02
Other real estate and land secured (Green acct)*	19,071	2.46	18,253	2.26
Green account subtotal	240,095	30.91	219,091	27.09
Other consumer	11,368	1.46	12,313	1.52
Commercial	569	0.08	1,133	0.14
Total loans	776,759	100.00%	808,750	100.00%
Net deferred loan origination costs	2,399		2,581	
Allowance for loan losses	(11,188)		(18,286)	

Total loans receivable, net	$ 767,970	$ 793,045

* At 9/30/09, these totals included $240.1 million of the Company s Green account loans, of which $221.0 million was secured by one-to four-family properties, $14.2 million was secured by commercial properties, $2.6 million was secured by land, and $2.3

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million was secured by multi-family properties. At 12/31/08, these totals included $219.1 million of the Company s Green account loans, of which $200.8 million was secured by one-to four- family properties, $14.9 million was secured by commercial properties, $2.5 million was secured by multi-family properties and $798 thousand was secured by land.

At September 30, 2009, the Company had a total of $319.3 million in interest-only mortgage loans (including Green accounts) and $34.5 million in loans with the potential for negative amortization. At December 31, 2008, the Company had a total of $347.6 million in interest-only mortgage loans and $37.3 million in loans with the potential for negative amortization. The Company no longer originates loans with the potential for negative amortization. The Company continues to originate interest-only loans and growth in those loans is primarily attributable to growth in the Company s Green account loan product which, by its nature, is an interest-only product. Negatively amortizing and interest-only loans pose a potentially higher credit risk because of the lack of principal amortization and potential for negative amortization which could result in a larger amount outstanding. However, management believes the risk is mitigated through the Company s loan terms and underwriting standards.

Allowance for Loan Losses. The allowance for loan losses at September 30, 2009 was $11.2 million, which represented 1.4% of the loans, outstanding at September 30, 2009, as compared to $18.3 million, or 2.3%, of the loans outstanding at December 31, 2008. The decline in the percentage of allowance to loans outstanding was a direct result of the increase in loan charge-offs during the period for which specific reserves had been previously provided.

Management assesses the allowance for loan losses monthly. 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, 2009 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. See further discussion in subsection entitled Operating Results-Provision for Loan Losses.

Set forth below is a summary, in thousands of dollars, of the transactions in the allowance for loan losses for the nine months ended September 30, 2009 and the year ended December 31, 2008:

	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Balance, beginning of period	$ 18,286	$ 6,240
Provision for loan losses	12,395	13,547
Total loans charged off	(19,494)	(1,551)
Total recoveries	1	50
Balance, end of period	$ 11,188	$ 18,286

Charge-offs totaled $19.5 million for the period ending September 30, 2009, of which $16.3 million was attributed to two construction loans and one land loan that were written down to current estimated fair values.

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Delinquent Loans. The following table sets forth, in thousands of dollars, our loan delinquencies by type, number, and amount at September 30, 2009, and December 31, 2008.

	Loans Delinquent For:				Total	
	60-89 Days		Greater than 90 days		Loans Delinquent 60 days or more	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
September 30, 2009						
One- to four-family	8	$ 5,924	17	$ 14,870	25	$ 20,794
Commercial and multi-family real estate			7	5,107	7	5,107
Home equity						
Real estate secured-first trust deeds (Green acct)	1	1,050	4	4,594	5	5,644
Real estate secured-second trust deeds (Green acct)	1	269			1	269
Construction			1	2,472	1	2,472
Commercial						
Land			2	1,466	2	1,466
Consumer	1	7	4	30	5	37
	11	$ 7,250	35	$ 28,539	46	$ 35,789
Delinquent loans to total gross loans		.93%		3.67%		4.60%

	Loans Delinquent For:				Total	
	60-89 Days		Greater than 90 days		Loans Delinquent 60 days or more	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
			(Dollars in thousands)			
December 31, 2008						
One- to four-family	1	$ 1,825	12	$ 8,942	13	$ 10,767
Commercial, multi-family real estate and land	1	345	1	9,377	2	9,722
Home equity	2	1,854	1	92	3	1,946
Construction			2	17,835	2	17,835
Commercial						
Consumer						
	4	$ 4,024	16	$ 36,246	20	$ 40,270
Delinquent loans to total gross loans		0.50%		4.48%		4.98%

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Non-performing Assets. The table below, in thousands of dollars, sets forth the amounts and categories of non-performing assets and includes those loans on nonaccrual status, loans that have been restructured resulting in a troubled debt classification and impaired loans. The Company ceases accruing interest, and therefore classifies as nonaccrual, any loan as to which principal or interest has been in default for a period of greater than 90 days, or if repayment in full of interest or principal is not expected. Of the non-performing loan balance, five loans totaling $3.0 million were current as of September 30, 2009 but were still considered impaired.

	September, 2009	December, 2008
Non-performing loans*:*		
One- to four-family	$ 17,537	$ 9,745
Commercial and multi-family real estate	2,017	
Home equity		92
Real estate secured-first trust deeds (Green acct)	4,948	790
Real estate secured-second trust deeds (Green acct)		
Construction	2,472	17,835
Commercial		
Land	1,466	9,377
Consumer		
Total non-performing loans	$ 28,440	$ 37,839
Troubled debt restructured loans*:*		
One- to four-family	$ 5,720	$ 3,538
Commercial and Multi-family real estate	8,502	5,412
Home equity	202	
Real estate secured-first trust deeds (Green acct)	320	
Real estate secured-second trust deeds (Green acct)		
Construction		
Commercial		
Land		