BBNK 10-Q 9/30/2008

Section 1: 10-Q

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, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From ____________ to _____________

000-50914
(Commission File Number)

Bridge Capital Holdings
(Exact name of registrant as specified in its charter)

California	**80-0123855**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

55 Almaden Boulevard, San Jose, CA 95113
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(408) 423-8500**

Bridge Bank, N.A. (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 and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

The number of shares of Common Stock outstanding as of November 6, 2008: 6,598,289

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FORWARD-LOOKING STATEMENTS

IN ADDITION TO THE HISTORICAL INFORMATION, THIS QUARTERLY REPORT CONTAINS CERTAIN FORWARD-LOOKING INFORMATION 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, AND WHICH ARE SUBJECT TO THE "SAFE HARBOR" CREATED BY THOSE SECTIONS. THE READER OF THIS QUARTERLY REPORT SHOULD UNDERSTAND THAT ALL SUCH FORWARD-LOOKING STATEMENTS ARE SUBJECT TO VARIOUS UNCERTAINTIES AND RISKS THAT COULD AFFECT THEIR OUTCOME. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SUGGESTED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, (1) COMPETITIVE PRESSURE IN THE BANKING INDUSTRY INCREASES SIGNIFICANTLY; (2) CHANGES IN THE INTEREST RATE ENVIRONMENT REDUCES MARGIN; (3) GENERAL ECONOMIC CONDITIONS, EITHER NATIONALLY OR REGIONALLY, ARE LESS FAVORABLE THAN EXPECTED, RESULTING IN, AMONG OTHER THINGS, A DETERIORATION IN CREDIT QUALITY; (4) CHANGES IN THE REGULATORY ENVIRONMENT; (5) CHANGES IN BUSINESS CONDITIONS AND INFLATION; (6) COSTS AND EXPENSES OF COMPLYING WITH THE INTERNAL CONTROL PROVISIONS OF THE SARBANES-OXLEY ACT AND OUR DEGREE OF SUCCESS IN ACHIEVING COMPLIANCE; (7) CHANGES IN SECURITIES MARKETS; (8) FUTURE CREDIT LOSS EXPERIENCE; (9) CIVIL DISTURBANCES OR TERRORIST THREATS OR ACTS, OR APPREHENSION ABOUT POSSIBLE FUTURE OCCURANCES OF ACTS OF THIS TYPE; AND (10) THE INVOLVEMENT OF THE UNITED STATES IN WAR OR OTHER HOSTILITIES. THEREFORE, THE INFORMATION IN THIS QUARTERLY REPORT SHOULD BE CAREFULLY CONSIDERED WHEN EVALUATING THE BUSINESS PROSPECTS OF THE COMPANY.

Forward-looking statements are generally identifiable by the use of terms such as "believe", "expect", "intend", "anticipate", "estimate", "project", "assume," "plan," "predict," "forecast," "in management's opinion," "management considers" or similar expressions. Wherever such phrases are used, such statements are as of and based upon the knowledge of Management, at the time made and are subject to change by the passage of time and/or subsequent events, and accordingly such statements are subject to the same risks and uncertainties noted above with respect to forward-looking statements.

The Company's primary operations and most of its customers are located in California. Other events, including those of September 11, 2001, have increased the uncertainty related to the national and California economic outlook and could have an effect on the future operations of the Company or its customers, including borrowers. The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

The reader should refer to the more complete discussion of such risks in the Company's Annual Reports on Form 10-K.

PART I - FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

BRIDGE CAPITAL HOLDINGS AND SUBSIDIARY
Interim Consolidated Balance Sheets
(dollars in thousands)

	(unaudited) September 30, 2008	December 31, 2007
ASSETS		
Cash and due from banks	$ 21,286	$ 27,440
Federal funds sold	113,735	13,395
Total cash and equivalents	135,021	40,835
Interest bearing deposits in other banks	4,915	
Investment securities available for sale	101	55,482
Loans, net of allowance for credit losses of $17,764 at September 30, 2008 and $8,608 at December 31, 2007	667,142	642,265
Premises and equipment, net	5,044	5,005
Other Real Estate Owned	862	425
Accrued interest receivable	3,217	4,400
Other assets	39,105	26,420
Total assets	$ 855,407	$ 774,832
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand noninterest-bearing	$ 223,843	$ 198,641
Demand interest-bearing	4,224	5,350
Savings	404,212	372,923
Time	106,460	94,442
Total deposits	738,739	671,356
Junior subordinated debt securities	17,527	17,527
Other borrowings	30,000	10,000
Accrued interest payable	274	210
Other liabilities	11,176	10,655
Total liabilities	797,716	709,748
Commitments and contingencies	-	-
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 10,000,000 shares authorized; none issued	-	-
Common stock, no par value; 30,000,000 shares authorized; 6,598,289 shares issued and outstanding at September 30, 2008; 6,485,630 shares issued and outstanding at December 31, 2007.	39,139	37,697
Retained earnings	16,399	25,409
Accumulated other comprehensive income	2,153	1,978
Total shareholders' equity	57,691	65,084
Total liabilities and shareholders' equity	$ 855,407	$ 774,832

The accompanying notes are an integral part of the financial statements.

BRIDGE CAPITAL HOLDINGS AND SUBSIDIARY
Interim Consolidated Statements of Operations (unaudited)
(dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
INTEREST INCOME:				
Loans	$ 13,632	$ 15,585	$ 43,107	$ 45,202
Federal funds sold	512	1,138	835	2,415
Investment securities available for sale	114	904	1,285	2,324
Total interest income	14,258	17,627	45,227	49,941
INTEREST EXPENSE:				
Deposits:				
Interest-bearing demand	3	10	10	33
Money market and savings	2,083	3,984	6,662	10,609
Certificates of deposit	894	1,039	2,923	3,307
Other	291	262	889	782
Total interest expense	3,271	5,295	10,484	14,731
Net interest income	10,987	12,332	34,743	35,210
Provision for credit losses	19,000	475	27,570	1,675
Net interest income after provision for credit losses	(8,013)	11,857	7,173	33,535
NON-INTEREST INCOME:				
Service charges on deposit accounts	327	166	814	497
Gain on sale of SBA loans	87	363	556	2,986
Other non interest income	1,541	906	3,971	1,859
Total non-interest income	1,955	1,435	5,341	5,342
OPERATING EXPENSES:				
Salaries and benefits	5,859	5,530	17,421	15,796
Premises and fixed assets	1,163	1,173	3,424	3,149
Other	2,780	2,012	7,204	6,046
Total operating expenses	9,802	8,715	28,049	24,991
Income (loss) before income taxes	(15,860)	4,577	(15,535)	13,886
Income taxes	(6,655)	1,825	(6,525)	5,707
Net income (loss)	$ (9,205)	$ 2,752	$ (9,010)	$ 8,179
Basic earnings (loss) per share	$ (1.41)	$ 0.43	$ (1.38)	$ 1.28
Diluted earnings (loss) per share	$ (1.41)	$ 0.40	$ (1.38)	$ 1.18
Average common shares outstanding	6,533,545	6,397,140	6,487,200	6,369,991
Average common and equivalent Shares outstanding	6,533,545	6,947,833	6,487,200	6,923,726

The accompanying notes are an integral part of the financial statements.

BRIDGE CAPITAL HOLDINGS AND SUBSIDIARY
Interim Consolidated Statements of Cash Flows (unaudited)
(dollars in thousands)

	Nine months ended September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (9,010)	$ 8,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	27,570	1,675
Depreciation and amortization	1,200	745
Stock based compensation	1,029	850
Loans originated for sale	(38,419)	(74,210)
Proceeds from loan sales	20,254	76,799
Increase (decrease) in accrued interest receivable and other assets	(10,137)	(3,008)
Decrease in accrued interest payable and other liabilities	351	(1,119)
Net cash provided by operating activities	(7,162)	9,911
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities available for sale	-	(38,361)
Proceeds from sale/maturity of securities available for sale	54,650	17,000
Purchase of interest bearing deposits	(4,915)	-
Net increase in loans	(34,963)	(73,895)
Purchase of fixed assets	(1,220)	(2,102)
Net cash used in investing activities	13,552	(97,358)
CASH FLOW FROM FINANCING ACTIVITIES:		
Net increase in deposits	67,383	57,862
Decrease in other borrowings	20,000	-
Common stock issued	413	611
Net cash provided by financing activities	87,796	58,473
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS:	94,186	(28,974)
Cash and equivalents at beginning of period	40,835	118,205
Cash and equivalents at end of period	$ 135,021	$ 89,231
OTHER CASH FLOW INFORMATION:		
Cash paid for interest	$ 10,355	$ 14,859
Cash paid for income taxes	$ 4,638	$ 6,902

The accompanying notes are an integral part of the financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited financial statements of Bridge Capital Holdings and Bridge Bank, N.A. have been prepared in accordance with generally accepted accounting principles and pursuant to the rules and regulations of the SEC. The interim financial data as of September 30, 2008 and for the three and nine months ended September 30, 2008 is unaudited; however, in the opinion of the Company, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. Certain information and note disclosures normally included in annual financial statements have been omitted pursuant to SEC rules and regulations; however, the Company believes the disclosures made are adequate to ensure that the information presented is not misleading. Results of operations for the quarter and nine months ended September 30, 2008 are not necessarily indicative of full year results.

The comparative balance sheet information as of December 31, 2007 is derived from the audited financial statements; however, it does not include all disclosures required by accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities as of the dates and for the periods presented. A significant estimate included in the accompanying financial statements is the allowance for loan losses. Actual results could differ from those estimates.

Earnings Per Share

Basic net income per share is computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is determined using the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options and vesting of restricted stock. Common stock equivalents are included in the diluted net income per share calculation to the extent these shares are dilutive. See Note 2 to the financial statements for additional information on earnings per share.

Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004) (SFAS No. 123R), Share-Based Payments, which addresses the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The Company uses the Black-Scholes-Merton ("BSM") option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R, consistent with that used for pro forma disclosures under SFAS No. 123, Accounting for Stock-Based Compensation. The Company has recorded an incremental $322,000 ($272,000 net of tax) and $1.0 million ($877,000 net of tax) of stock-based compensation expense during the three and nine months ended September 30, 2008, respectively, as a result of the adoption of SFAS No. 123R.

No stock-based compensation costs were capitalized as part of the cost of an asset as of September 30, 2008. As of September 30, 2008, $3.1 million of total unrecognized compensation cost related to stock options and restricted stock units are expected to be recognized over a weighted-average period of 4 years.

The impact of implementing SFAS No. 123R reduced basic earnings per share by $0.04 and $0.13 and diluted earnings per share by $0.04 and $0.12 for the three and nine months ended September 30, 2008, respectively.

Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, requires that all items recognized under accounting standards as components of comprehensive earnings be reported in an annual financial statement that is displayed with the same prominence as other annual financial statements. This Statement also requires that an entity classify items of other comprehensive earnings by their nature in an annual financial statement. Other comprehensive earnings include the SFAS No. 158 adjustment to fully recognize the liability associated with the supplemental executive retirement plan, unrealized gains and losses, net of tax, on cash flow hedges and unrealized gains and losses, net of tax, on marketable securities classified as available-for-sale. The Company had cumulative other comprehensive income totaling $2.2 million, net of tax, as of September 30, 2008 and $2.0 million, net of tax, as of December 31, 2007.

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income (loss)	$ (9,205)	$ 2,752	$ (9,010)	$ 8,179
Other comprehensive earnings-				
Net unrealized gains (losses) on securities available for sale	(276)	377	(489)	332
Net unrealized gains (losses) on				
FAS 158 adjustment - supplemental executive retirement plan	70	10	172	31
Net unrealized gains (losses) on cash flow hedges	484	1,468	492	918
Total comprehensive income (loss)	$ (8,927)	$ 4,607	$ (8,835)	$ 9,460

Segment Information

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, requires certain information about the operating segments of the Company. The objective of requiring disclosures about segments of an enterprise and related information is to provide information about the different types of business activities in which an enterprise engages and the different economic environment in which it operates to help users of financial statements better understand its performance, better assess its prospects for future cash flows and make more informed judgments about the enterprise as a whole. The Company has determined that it has one segment, general commercial banking, and therefore, it is appropriate to aggregate the Company's operations into a single operating segment.

2. Earnings Per Share

Basic net earnings per share is computed by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net earnings per share is determined using the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options. Common stock equivalents are included in the diluted net earnings per share calculation to the extent these shares are dilutive. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net earnings per share available to common shareholders is as follows (in thousands, except for per share amounts):

(dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income (loss)	$ (9,205)	$ 2,752	$ (9,010)	$ 8,179
Weighted average shares used in computing:				
Basic common shares	6,533,545	6,397,140	6,487,200	6,369,991
Diluted potential common shares related to stock based awards, using the treasury stock method	0	550,693	0	553,735
Total average common equivalent shares	6,533,545	6,947,833	6,487,200	6,923,726
Basic earnings (loss) per share	$ (1.41)	$ 0.43	$ (1.38)	$ 1.28
Diluted earnings (loss) per share	$ (1.41)	$ 0.40	$ (1.38)	$ 1.18

3. Securities

The amortized cost and approximate fair values of securities at September 30, 2008 and December 31, 2007 are as follows:

(dollars in thousands)	As of September 30, 2008			
		Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government treasury notes	$ 100	$ 1	$ -	$ 101
U.S. government agency notes	-	-	-	-
Total securities available for sale	100	1	-	101
Total investment securities	$ 100	$ 1	$ -	$ 101

	As of December 31, 2007			
		Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government treasury notes	$ 201	$ 1	$ -	$ 202
U.S. government agency notes	54,450	831	(1)	55,280
Total securities available for sale	54,651	832	(1)	55,482
Total investment securities	$ 54,651	$ 832	$ (1)	$ 55,482

The scheduled maturities of securities available for sale at September 30, 2008 and December 31, 2007 were as follows:

(dollars in thousands)	September 30, 2008	
	Amortized Cost	Fair Value
Due in one year or less	$ 100	$ 101
Due after one year through five years	-	-
Due after five years through ten years	-	-
Due after ten years	-	-
Total securities available for sale	100	101
Total investment securities	$ 100	$ 101

	December 31, 2007	
	Amortized Cost	Fair Value
Due in one year or less	$ 24,143	$ 24,200
Due after one year through five years	30,508	31,282
Due after five years through ten years	-	-
Due after ten years	-	-
Total securities available for sale	54,651	55,482
Total investment securities	$ 54,651	$ 55,482

As of September 30, 2008, investment securities with carrying values of approximately $100,000 were pledged as collateral. As of September 30, 2008, there were no unrealized losses attributable to securities maturing in greater than 12 months.

4. Loans

The balances in the various loan categories are as follows as of September 30, 2008 and December 31, 2007:

(dollars in thousands)	September 30, 2008	December 31, 2007
Commercial	$ 286,793	$ 272,660
SBA	69,921	56,945
Real estate construction	97,255	85,378
Land development	41,136	56,196
Real estate other	130,845	114,846
Factoring and asset based lending	50,006	57,662
Other	10,767	9,042
Loans, gross	686,723	652,729
Unearned fee income	(1,817)	(1,856)
Total loan portfolio	684,906	650,873
Less allowance for credit losses	(17,764)	(8,608)
Loans, net	$ 667,142	$ 642,265

5. Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the shorter of the lease term, generally three to fifteen years, or the estimated useful lives of the assets, generally three to five years.

Premises and equipment at September 30, 2008 and December 31, 2007 are comprised of the following:

(dollars in thousands)	September 30, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Leasehold improvements	$ 5,571	$ (2,261)	$ 3,310
Furniture and fixtures	1,051	(726)	325
Capitalized software	2,812	(1,933)	879
Equipment	1,991	(1,471)	520
Construction in process	10	-	10
Totals	$ 11,435	$ (6,391)	$ 5,044

	December 31, 2007		
	Cost	Accumulated Depreciation	Net book Value
Leasehold improvements	$ 4,855	$ (1,548)	$ 3,307
Furniture and fixtures	1,027	(627)	400
Capitalized software	2,285	(1,567)	718
Equipment	1,798	(1,218)	580
Construction in process	-	-	-
Totals	$ 9,965	$ (4,960)	$ 5,005

6. Junior Subordinated Debt Securities and Other Borrowings

Junior Subordinated Debt Securities

On December 21, 2004, the Company issued $12,372,000 of junior subordinated debt securities (the “debt securities”) to Bridge Capital Trust I, a statutory trust created under the laws of the State of California. These debt securities are subordinated to effectively all borrowings of the Company and are due and payable in March 2035. Interest is payable quarterly on these debt securities at a fixed rate of 5.9% for the first five years, and thereafter interest accrues at LIBOR plus 1.98%. The debt securities can be redeemed at par at the Company’s option beginning in March 2010; they can also be redeemed at par if certain events occur that impact the tax treatment or the capital treatment of the issuance.

The Company also purchased a 3% minority interest in the Trust. The balance of the equity of the Trust is comprised of mandatorily redeemable preferred securities.

On March 30, 2006 the Company issued $5,155,000 of junior subordinated debt securities (the “debt securities”) to Bridge Capital Trust II, a statutory trust created under the laws of the State of Delaware. These debt securities are subordinated to effectively all borrowings of the Company and are due and payable in March 2037. Interest is payable quarterly on these debt securities at a fixed rate of 6.60% for the first five years, and thereafter interest accrues at LIBOR plus 1.38%. The debt securities can be redeemed at par at the Company’s option beginning in April 2011; they can also be redeemed at par if certain events occur that impact the tax treatment or the capital treatment of the issuance.

The Company also purchased a 3% minority interest in the Trust. The balance of the equity of the Trust is comprised of mandatorily redeemable preferred securities.

Under FASB Interpretation No.46 (FIN 46), Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, these Trusts are not consolidated into the company's financial statements. Prior to the issuance of FIN 46, bank holding companies typically consolidated these entities. The Federal Reserve Board has ruled that subordinated notes payable to unconsolidated special purpose entities ("SPE's") such as these Trusts, net of the bank holding company's investment in the SPE, qualify as Tier 1 Capital, subject to certain limits.

Other Borrowings

There were $30.0 million in other borrowings at September 30, 2008 and $10.0 million in other borrowings at December 31, 2007.

As of September 30, 2008, the Company had a total borrowing capacity with the Federal Home Loan Bank of San Francisco of approximately $121.0 million for which the Company had collateral in place to borrow $76.0 million. As of September 30, 2008, $10.0 million of this borrowing capacity was pledged to secure a letter of credit and $30.0 million pledged to secure other borrowings.

The Bank also has unsecured borrowing lines with correspondent banks totaling $25.0 million. At September 30, 2008, there were no balances outstanding on these lines.

7. Stock-Based Compensation

SFAS No. 123R requires the use of a valuation model to calculate the fair value of stock-based awards. The Company has elected to use the BSM option-pricing model, which incorporates various assumptions including volatility, expected life, and interest rates. The expected volatility is based on the historical volatility of the Company's common stock over the most recent period commensurate with the estimated expected life of the Company's stock options, adjusted for the impact of unusual fluctuations not reasonably expected to recur and other relevant factors including implied volatility in market traded options on the Company's common stock. The expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees.

The weighted average assumptions used for the three and nine month periods ended September 30, 2008 and 2007 and the resulting estimates of weighted-average fair value per share of stock-based awards granted during those periods are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Expected life	75 months	60 months	75 months	60 months
Stock volatility	22.00%	28.43%	22.00%	28.43%
Risk free interest rate	3.19%	4.39%	3.25%	4.71%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Fair value per share	$ 3.53	$ 10.81	$ 4.96	$ 9.59

8. Fair Values of Assets and Liabilities

In accordance with SFAS No. 157, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuations for assts and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The balances of assets and liabilities measured at fair value on a recurring basis are as follows:

(dollars in thousands)	As of September 30, 2008			
	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 100	$ 100	$ -	$ -
Cash flow hedge	4,798	-	4,798	-
Warrant portfolio	697	-	-	697
Mortgage servicing rights	729	-	729	-
Total	$ 6,324	$ 100	$ 5,527	$ 697

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis were not material for the quarter ended September 30, 2008.

The Company may be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The assets measured at fair value on a non-recurring basis were not material for the quarter ended September 30, 2008.

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

In addition to the historical information, this quarterly report contains certain forward-looking information 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, and which are subject to the "Safe Harbor" created by those sections. The reader of this quarterly report should understand that all such forward-looking statements are subject to various uncertainties and risks that could affect their outcome. The Company's actual results could differ materially from those suggested by such forward-looking statements. Such risks and uncertainties include, among others, (1) competitive pressure in the banking industry increases significantly; (2) changes in interest rate environment reduces margin; (3) general economic conditions, either nationally or regionally are less favorable than expected, resulting in, among other things, a deterioration in credit quality; (4) changes in the regulatory environment; (5) changes in business conditions and inflation; (6) costs and expenses of complying with the internal control provisions of the Sarbanes-Oxley Act and our degree of success in achieving compliance; (7) changes in securities markets; (8) future credit loss experience; (9) civil disturbances of terrorist threats or acts, or apprehension about possible future occurrences of acts of this type; and (10) the involvement of the United States in war or other hostilities. Therefore, the information in this quarterly report should be carefully considered when evaluating the business prospects of the Company.

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported. Our most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established detailed policies and control procedures that are intended to ensure that valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Allowance for Loan Losses: The allowance for loan losses represents management's best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The provision for loan losses is determined based on management's assessment of several factors: reviews and evaluation of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experiences, the level of classified and nonperforming loans and the results of regulatory examinations.

Loans are considered impaired if, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. In measuring the fair value of the collateral, management uses assumptions and methodologies consistent with those that would be utilized by unrelated third parties.

Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses and the associated provision for loan losses.

The accrual of interest on loans is discontinued and any accrued and unpaid interest is reversed when, in the opinion of management, there is significant doubt as to the collectibility of interest or principal or when the payment of principal or interest is ninety days past due, unless the amount is well-secured and in the process of collection.

The Company has the ability and the intent to sell all or a portion of certain SBA loans in the loan portfolio and, as such, carries the saleable portion of these loans at the lower of aggregate cost or fair value. At September 30, 2008 and December 31, 2007, the fair value of SBA loans exceeded aggregate cost and therefore, SBA loans were carried at aggregate cost.

In calculating gain on the sale of SBA loans, the Company performs an allocation based on the relative fair values of the sold portion and retained portion of the loan. The Company's assumptions are validated by reference to external market information.

Available-for-sale securities: the fair value of most securities classified as available-for-sale is based on quoted market prices. If quoted market prices are not available, fair values are extrapolated from the quoted prices of similar instruments.

Supplemental Employee Retirement Plan: The Company has entered into supplemental employee retirement agreements with certain executive and senior officers. The measurement of the liability under these agreements includes estimates involving life expectancy, length of time before retirement, and expected benefit levels. Should these estimates prove materially wrong, we could incur additional or reduced expense to provide the benefits.

Selected Financial Data

The following table reflects selected financial data and ratios as of and for the quarters and nine months ended September 30, 2008 and 2007.

(dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
Statement of Operations Data:	2008	2007	2008	2007
Interest income	$ 14,258	$ 17,627	$ 45,227	$ 49,941
Interest expense	3,271	5,295	10,484	14,731
Net interest income	10,987	12,332	34,743	35,210
Provision for credit losses	19,000	475	27,570	1,675
Net interest income after provision for credit losses	(8,013)	11,857	7,173	33,535
Other income	1,955	1,435	5,341	5,342
Other expenses	9,802	8,715	28,049	24,991
Income (loss) before income taxes	(15,860)	4,577	(15,535)	13,886
Income taxes	(6,655)	1,825	(6,525)	5,707
Net income (loss)	$ (9,205)	$ 2,752	$ (9,010)	$ 8,179
Per Share Data:				
Basic earnings (loss) per share	$ (1.41)	$ 0.43	$ (1.38)	$ 1.28
Diluted earnings (loss) per share	$ (1.41)	0.40	(1.38)	1.18
Shareholders' equity per share	8.74	9.32	8.74	9.32
Cash dividend per common share	-	-	-	-
Balance Sheet Data:				
Balance sheet totals:				
Assets	$ 855,407	$ 789,877		
Loans, net	667,142	601,587		
Deposits	738,739	702,850		
Shareholders' equity	57,691	60,015		
Average balance sheet amounts:				
Assets	$ 858,555	$ 801,249	$ 814,683	$ 750,171
Loans, net	687,738	587,926	671,025	569,209
Deposits	763,361	714,918	715,224	668,292
Shareholders' equity	67,222	57,400	68,017	54,143
Selected Ratios:				
Return on average assets	-4.27%	1.36%	-1.48%	1.46%
Return on average equity	-54.48%	19.02%	-17.69%	20.20%
Efficiency ratio	75.74%	63.30%	69.98%	61.63%
Risk based capital ratio	10.27%	11.80%		
Net chargeoffs to average gross loans	2.31%	0.01%	2.69%	0.17%
Allowance for loan losses to total loans	2.59%	1.31%		
Average equity to average assets	7.83%	7.16%	8.35%	7.22%

Summary of Financial Results – Quarter ended September 30, 2008

The Company reported a net loss of $(9.2) million, or $(1.41) basic and $(1.41) diluted earnings per share for the quarter ended September 30, 2008 as compared to net income of $2.8 million, or $0.43 basic and $0.40 diluted earnings per share for the quarter ended September 30, 2007. The decrease in net income resulted primarily from an increase in the provision for credit losses, offset in part by a decrease in income taxes.

The table below highlights the changes in the nature and sources of income and expense.

(dollars in thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007	Increase (Decrease)
Interest income	$ 14,258	$ 17,627	$ (3,369)
Interest expense	3,271	5,295	(2,024)
Net interest income	10,987	12,332	(1,345)
Provision for credit losses	19,000	475	18,525
Net interest income after provision for credit losses	(8,013)	11,857	(19,870)
Other income	1,955	1,435	520
Other expenses	9,802	8,715	1,087
Income (loss) before income taxes	(15,860)	4,577	(20,437)
Income taxes	(6,655)	1,825	(8,480)
Net income (loss)	$ (9,205)	$ 2,752	$ (11,957)

Net Interest Income and Margin

Net interest income, the difference between interest earned on loans and investments and interest paid on deposits is the principal component of the Company's earnings. Net interest income is affected by changes in the nature and volume of earning assets held during the quarter, the rates earned on such assets and the rates paid on interest bearing liabilities.

Net interest income for the quarter ended September 30, 2008 was $11.0 million, which was comprised of $14.3 million in interest income and $3.3 million in interest expense. Net interest income for the quarter ended September 30, 2007 was $12.3 million, which was comprised of $17.6 million in interest income and $5.3 million in interest expense. Net interest income for the quarter ended September 30, 2008 represented a decrease of $1.3 million or 10.9% from the same period one year earlier.

The composition of the average balance sheet impacts growth in net interest income. For the quarter ended September 30, 2008 average earning assets of $821.2 million represented an increase of $64.0 million, or 8.5%, compared to $757.2 million for the same period in 2007. The Company’s loan-to-deposit ratio, a measure of leverage, averaged 92.41% during the quarter ended September 30, 2008, which represented an increase compared to an average of 83.54% for the same quarter of 2007 as a result of faster loan growth relative to deposit funding.

Changes in short-term interest rates also impact growth in net interest income as the interest rate earned on a majority of the Company’s assets, specifically the loan portfolio, adjust with changes in short-term market rates. As such, the nature of the Company’s balance sheet is that, over time as short-term interest rates change, income on interest earning assets has a greater impact on net interest income than interest paid on liabilities. The Company’s prime rate averaged 5.00% in the quarter ended September 30, 2008 compared to 8.18% in the same period one year earlier.

The Company's net interest margin (net interest income divided by average earning assets) for the quarter ended September 30, 2008 was 5.32% compared to 6.46% in the same period one year earlier primarily as a result of the decrease in short term interest rates offset, in part, by income from interest rate swaps. During the quarter ended September 30, 2008, the net settlement from interest rate swaps contributed $550,000 to support net interest income compared to a loss of $92,000 for the quarter ended September 30, 2007.

The following table details the average balances, interest income and expense and the effective yields/rates for earning assets and interest-bearing liabilities for the quarters ended September 30, 2008 and 2007.

(dollars in thousands)	Three months ended September 30, 2008			2007		
	Average Balance	Yields or Rates	Interest Income/ Expense	Average Balance	Yields or Rates	Interest Income/ Expense
ASSETS						
Interest earning assets (2):						
Loans (1)	$ 705,402	7.7%	$ 13,632	$ 597,214	10.4%	$ 15,585
Federal funds sold	104,909	1.9%	512	89,483	5.1%	1,138
Investment securities	5,419	5.1%	69	70,498	5.1%	904
Other	5,481	3.3%	45	-	0.0%	-
Total interest earning assets	821,211	6.9%	14,258	757,195	9.3%	17,627
Noninterest-earning assets:						
Cash and due from banks	18,154			20,882		
All other assets (3)	19,190			23,172		
TOTAL	$ 858,555			$ 801,249		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest bearing liabilities:						
Deposits:						
Demand	$ 5,340	0.2%	$ 3	$ 5,761	0.7%	$ 10
Savings	420,900	2.0%	2,083	417,255	3.8%	3,984
Time	99,290	3.6%	894	84,149	4.9%	1,039
Other	21,386	5.4%	291	17,527	5.9%	262
Total interest bearing liabilities	546,916	2.4%	3,271	524,692	4.0%	5,295
Noninterest-bearing liabilities:						
Demand deposits	237,831			207,753		
Accrued expenses and other liabilities	6,586			11,404		
Shareholders' equity	67,222			57,400		
TOTAL	$ 858,555			$ 801,249		
Net interest income and margin		5.3%	$ 10,987		6.5%	$ 12,332

(1) Loan fee amortization of $1.2 million and $1.5 million, respectively, is included in interest income. Nonperforming loans have been included in average loan balances.
(2) Interest income is reflected on an actual basis, not a fully taxable equivalent basis. Yields are based on amortized cost.
(3) Net of average allowance for credit losses of $15.8 million and $7.8 million, respectively.

The following table shows the effect of the interest differential of volume and rate changes for the quarters ended September 30, 2008 and 2007. The change in interest due to both rate and volume has been allocated in proportion to the relationship of absolute dollar amounts of change in each.

(dollars in thousands)	Three months ended September 30, 2008 vs. 2007 Increase (decrease) due to change in		
	Average Volume	Average Rate	Total Change
Interest income:			
Loans	$ 2,091	$ (4,044)	$ (1,953)
Federal funds sold	75	(701)	(626)
Investment securities	(829)	(6)	(835)
Other	45	-	45
Total interest income	1,383	(4,752)	(3,369)
Interest expense:			
Demand	(0)	(7)	(7)
Savings	18	(1,919)	(1,901)
Time	136	(281)	(145)
Other	53	(24)	29
Total interest expense	207	(2,231)	(2,024)
Change in net interest income	$ 1,177	$ (2,522)	$ (1,345)

Net interest income is the principal source of the Company's operating earnings. Significant factors affecting net interest income are: rates, volumes and mix of the loan, investment and deposit portfolios. Due to the nature of the Company's lending markets, in which the majority of loans are generally tied to prime rate, it is believed that an increase in interest rates should positively affect the Company's future earnings, while a decline should have a negative impact. However, it is not feasible to provide an accurate measure of such a change because of the many factors (many of them uncontrollable) influencing the result.

Interest Income

Interest income of $14.3 million in the quarter ended September 30, 2008 represented a decrease of $3.3 million, or 19.1%, from $17.6 million in the same quarter one year earlier. The decrease in interest income was primarily due to a decrease in interest rates, offset in part by growth in average earning assets.

Average gross loans were $705.4 million for three months ended September 30, 2008, an increase of $108.2 million or 18.1% over $597.2 million for the same period one year earlier. Average loans comprised 85.9% of average earning assets in the three months ended September 30, 2008 compared to 78.9% in the third quarter of 2007.

The average yield on earning assets was 6.9% for the quarter ended September 30, 2008 and 9.3% for the quarter ended September 30, 2007. As noted above, the majority of the Company's earning assets, including a majority of loans, are priced to adjust with movements in short-term interest rates, particularly the prime rate, and the decrease in yield was primarily due to decreases in the prime rate during 2008 offset, in part, by income from interest rate swaps.

Other earning assets, consisting of investment securities, federal funds sold and interest-bearing deposits, averaged $115.8 million for the quarter ended September 30, 2008, a decrease of $44.2 million or 27.6% from $160.0 million for the three months ended September 30, 2007.

Interest Expense

Interest expense was $3.3 million for the quarter ended September 30, 2008, which represented a decrease of $2.0 million, or 38.2% over $5.3 million for the comparable period of 2007. The decrease in interest expense reflects lower interest rates paid on liabilities in 2008 compared to 2007, offset in part by growth in average interest-bearing liabilities. Average interest-bearing liabilities were $546.9 million for the three months ended September 30, 2008, an increase of $22.2 million, or 4.2%, over $524.7 million for the same period one year earlier.

Growth in average interest bearing liabilities was primarily due to growth in average interest bearing deposits. Average interest bearing deposits were $525.5 million for the quarter ended September 30, 2008, which represented 68.8% of total average deposits and was an increase of $18.4 million, or 3.6%, over $507.2 million representing 70.9% of total average deposits in the third quarter of 2007.

Other (non-deposit) interest bearing liabilities are primarily comprised of junior subordinated debt securities issued by the Company. The junior subordinated debt is intended to supplement capital requirements of the Company at a rate of interest that is fixed for five years. Other interest bearing liabilities averaged $21.4 million and $17.5 million in the three months ended September 30, 2008 and 2007, respectively.

The average rate paid on interest-bearing liabilities of 2.4% in the quarter ended September 30, 2008 compared to 4.0% in the third quarter of 2007.

Credit Risk and Provision for Credit Losses

The Company maintains an allowance for credit losses which is based, in part, on the Company's and industry loss experience, the impact of economic conditions within the Company's market area and, as applicable, the State of California and/or national macroeconomic conditions, the value of underlying collateral, loan performance, and inherent risks in the loan portfolio. The allowance is reduced by charge-offs and increased by provisions for credit losses charged to operating expense and recoveries of previously charged-off loans.

The Company provided $19.0 million to the allowance for credit losses for the three months ended September 30, 2008, compared to $475,000 for the same period in 2007.

The Company’s loan charge-offs totaled $15.9 million during the third quarter ended September 30, 2008, compared to $312,000 for the same period one year earlier. The Company recognized $34,000 and $250,000 in loan recoveries for the three months ended September 30, 2008 and 2007, respectively.

The following schedule provides an analysis of the allowance for credit losses for the quarter ended September 30, 2008 and 2007, respectively:

(dollars in thousands)	Three months ended September 30, 2008	Three months ended September 30, 2007
Balance, beginning of period	$ 14,608	$ 7,590
Provision for credit losses	19,000	475
Charge-offs	(15,878)	(312)
Recoveries	34	250
Balance, end of period	$ 17,764	$ 8,003

At September 30, 2008, the allowance for credit losses was $17.8 million, representing 2.6% of total loans, as compared to $8.6 million, representing 1.3% of total loans, at December 31, 2007.

Based on an evaluation of the individual credits, historical credit loss experience by loan type, economic conditions, and the Company's reassessment of risks noted above, management has allocated the allowance for loan losses as follows for the periods ending September 30, 2008 and December 31, 2007:

(dollars in thousands)	September 30, 2008		December 31, 2007	
	Amount	Percent of loans in each category to gross loans	Amount	Percent of loans in each category to gross loans
Commercial	$ 6,075	0.9%	$ 3,124	0.5%
SBA	2,056	0.3%	1,053	0.2%
Real estate construction	4,608	0.7%	783	0.1%
Land loans	1,303	0.2%	1,584	0.2%
Real estate other	2,284	0.3%	772	0.1%
Factoring/ABL	1,262	0.2%	1,239	0.2%
Other	176	0.0%	53	0.0%
	$ 17,764	2.6%	$ 8,608	1.3%

The following summarizes nonperforming assets at September 30, 2008 and December 31, 2007.

(dollars in thousands)	September 30, 2008	December 31, 2007
Loans accounted for on a non-accrual basis	$ 19,316	$ 8,428
Loans restructured and in compliance with modified terms	-	-
Other loans with principal or interest contracturally past due 90 days or more	-	-
Total nonperforming loans	19,316	8,428
Other real estate owned	862	425
Total nonperforming assets	$ 20,178	$ 8,853

At September 30, 2008 nonperforming assets represented 2.36% of total assets, compared to 0.69% of total assets on December 31, 2007.

Nonperforming assets at September 30, 2008 consisted of thirteen lending relationships totaling $19.3 million that were on non-accrual status and determined to be impaired based upon the criteria set forth in SFAS No. 114, undeveloped land valued at $658,000 categorized as "other real estate owned", and one commercial property valued at $204,000 categorized as "other real estate owned".

The following table sets forth the components of nonperforming loans as of September 30, 2008.

(dollars in thousands)

September 30, 2008		
Classification	Amount	Collateral
Land	$ 7,350	Farmland in the Coachella Valley area of Southern California
Land	949	Lots for luxury single family homes in Monterey County
Land	2,784	Commercial lot in Santa Clara County
Land	109	Lots for single family homes in Amador County
Land	1,818	Lots for single family homes in Fresno County
Land	709	Lots for single family homes in Alameda County
	13,718	
Construction	700	Lots for single family homes and commercial office space in Alameda County
Construction	790	Lots for single family homes in Santa Clara County
Construction	1,000	Completed luxury single family home in Alameda County
Construction	386	Completed luxury single family home in the hills of the East Bay region of the San Francisco Bay Area
Construction	131	Lot for commercial office space in Placer County
	3,008	
Commercial	1,043	Business assets
Real estate other	1,547	Single family residences
Total nonperforming loans	$ 19,316	

During the third quarter of 2008, the Company charged-off $15.9 million of identified loss exposure pertaining to nonperforming loans. As a result, there no longer was an indicated potential loss exposure pertaining to nonperforming loans and no impairment reserves were required to be included in the allowance for credit losses.

Management is of the opinion that the allowance for credit losses is maintained at a level adequate for known and unidentified losses inherent in the loan portfolio. However, the Company's construction and land loan portfolios, representing approximately 20.2% of the total loan portfolio, could be adversely affected if California economic conditions and the real estate market in the Company's market area were to weaken. The effect of such events, although uncertain at this time, could result in an increase in the level of non-performing loans and other real estate owned and the level of the allowance for loan losses, which could adversely affect the Company's future growth and profitability.

Non-interest Income

The following table sets forth the components of other income and the percentage distribution of such income for the three months ended September 30, 2008 and 2007:

(dollars in thousands)	Three months ended September 30,			
	2008		2007	
	Amount	Percent	Amount	Percent
International fee income	$ 594	30.4%	$ 174	12.1%
Gain on sale of securities	413	21.1%	-	0.0%
Depositor service charges	327	16.7%	166	11.6%
Other income - cash flow hedge	151	7.7%	-	0.0%
SBA loan servicing income	113	5.8%	121	8.4%
Increase in value of life insurance	97	5.0%	97	6.8%
Gain on sale of SBA loans	87	4.5%	363	25.3%
Other operating income	173	8.8%	514	35.8%
	$ 1,955	100.0%	$ 1,435	100.0%

Non-interest income totaled $2.0 million in the third quarter of 2008, a decrease of $520,000 or 36.2% from $1.4 million in the third quarter of 2007. Non-interest income consists primarily of gains recognized on sales of SBA loans, foreign exchange income, SBA loan servicing income, and packaging fees and service charge income on deposit accounts. The decrease in non- interest income was primarily the result of decreased gains on the sale of SBA loans, offset in part by increased gains on the sale of securities, increased international fee income, increased depositor service charges and a hedge accounting adjustment.

For the quarter ended September 30, 2008 international fee income was $594,000 compared to $174,000 for the quarter ended September 30, 2007. Additionally, included in non-interest income for the quarter ended September 30, 2008 was a hedge accounting adjustment of $151,000 pertaining to the Company's interest rate swap and $413,000 from the sale of securities.

Revenue from sales of SBA loans is dependant on consistent origination and funding of new loan volumes, the timing of which may be impacted, from time to time, by (1) increased competition from other lenders; (2) the relative attractiveness of SBA borrowing to other financing options; (3) adjustments to programs by the SBA; (4) changes in activities of secondary market participants and; (5) other factors. Gains recognized on sales of SBA loans were $87,000 in the quarter ended September 30, 2008 which represented a decrease of $276,000 or 76.0% compared to $363,000 the same period one year earlier. During the quarter ended September 30, 2008, the Company sold SBA loans totaling $2.9 million compared to $20.3 million for the same period in 2007.

Non-interest Expense

The components of other expense as a percentage of average earnings assets are set forth in the following table for the three months ended September 30, 2008 and 2007.

(dollars in thousands)	Three months ended September 30,			
	2008		2007	
	Amount	Percent	Amount	Percent
Salaries and benefits	$ 5,859	2.8%	$ 5,530	2.9%
Occupancy	910	0.4%	910	0.5%
Data processing	609	0.3%	491	0.3%
Legal and professional	433	0.2%	247	0.1%
Director/shareholder expense	318	0.2%	158	0.1%
Marketing and advertising	309	0.1%	389	0.2%
Furniture and equipment	253	0.1%	263	0.1%
Deposit services	224	0.1%	235	0.1%
Other	887	0.4%	492	0.3%
	$ 9,802	4.7%	$ 8,715	4.6%

Operating expenses were $9.8 million for the three months ended September 30, 2008, an increase of $1.1 million or 12.5% from $8.7 million at September 30, 2007. As a percentage of average earning assets, other expenses for the three months ended September 30, 2008 and 2007 were 4.7% and 4.6%, respectively, on an annualized basis. In 2008, operating expenses were comprised primarily of salaries and benefits of $5.9 million, which compared to $5.5 million in 2007. The increase in salaries and benefits was primarily due to the additional headcount related to expansion of the business. At September 30, 2008, the Company employed 170 full-time equivalents (FTE) compared to 164 FTE on the same date one year earlier. In addition, salaries and benefits included a charge of $322,000 and $291,000 to recognize compensation related to stock option grants as a result of the implementation of FAS No. 123R in the third quarter of 2008 and 2007, respectively. Occupancy and data processing expense for the third quarter of 2008 was $1.5 million compared to $1.4 million for the same period one year earlier. The increase was primarily due to expansion of the business. Legal and professional expense for the quarter ended September 30, 2008 was $433,000 compared to $247,000 for the same period in 2007. The increase was primarily attributable to loan related legal fees.

Summary of Financial Results – Nine months ended September 30, 2008

The Company reported a net loss of $(9.0) million, or $(1.38) basic and $(1.38) diluted earnings per share for the nine months ended September 30, 2008 as compared to $8.2 million, or $1.28 basic and $1.18 diluted earnings per share for the nine months ended September 30, 2007. The decrease in net income was primarily the result of increases in provision for loan loss and operating expenses, offset in part by a decrease in income taxes.

The table below highlights the changes in the nature and sources of income and expense.

(dollars in thousands)	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Increase (Decrease)
Interest income	$ 45,227	$ 49,941	$ (4,714)
Interest expense	10,484	14,731	(4,247)
Net interest income	34,743	35,210	(467)
Provision for credit losses	27,570	1,675	25,895
Net interest income after provision for credit losses	7,173	33,535	(26,362)
Other income	5,341	5,342	(1)
Other expenses	28,049	24,991	3,058
Income before income taxes	(15,535)	13,886	(29,421)
Income taxes	(6,525)	5,707	(12,232)
Net income	$ (9,010)	$ 8,179	$ (17,189)

Net Interest Income and Margin

Net interest income, the difference between interest earned on loans and investments and interest paid on deposits is the principal component of the Company's earnings. Net interest income is affected by changes in the nature and volume of earning assets held during the six months, the rates earned on such assets and the rates paid on interest bearing liabilities.

Net interest income for the nine months ended September 30, 2008 was $34.7 million, which was comprised of $45.2 million in interest income and $10.5 million in interest expense. Net interest income for the nine months ended September 30, 2007 was $32.5 million, which was comprised of $49.9 million in interest income and $14.7 million in interest expense. Net interest income for the nine months ended September 30, 2008 represented a decrease of $467,000 or 1.3% over the same period one year earlier. The average balance sheet and the general interest rate environment drive net interest income.

The Company's net interest margin (net interest income divided by average earning assets) for the nine months ended September 30, 2008 was 6.01% compared to 6.68% for the same period one year earlier primarily as a result of the decrease in short term interest rates offset, in part, by an increase in income from interest rate swaps. During the nine months ended September 30, 2008, the net settlement from interest rate swaps contributed $1.5 million to support net interest income compared to a loss of $296,000 for the same period in 2007.

The following table details the average balances, interest income and expense and the effective yields/rates for earning assets and interest-bearing liabilities for the nine months ended September 30, 2008 and 2007.

(dollars in thousands)	Nine months ended September 30,					
	2008			2007		
	Average Balance	Yields or Rates	Interest Income/ Expense	Average Balance	Yields or Rates	Interest Income/ Expense
ASSETS						
Interest earning assets (2):						
Loans (1)	$ 684,690	8.4%	$ 43,107	$ 578,204	10.4%	$ 45,202
Federal funds sold	52,514	2.1%	835	62,803	5.1%	2,415
Investment securities	32,332	5.0%	1,204	60,809	5.1%	2,324
Other	3,294	3.3%	81	-	0.0%	-
Total interest earning assets	772,830	7.8%	45,227	701,816	9.5%	49,941
Noninterest-earning assets:						
Cash and due from banks	19,062			27,210		
All other assets (3)	22,791			21,145		
TOTAL	$ 814,683			$ 750,171		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest bearing liabilities:						
Deposits:						
Demand	$ 5,271	0.3%	$ 10	$ 5,563	0.8%	$ 33
Savings	390,347	2.3%	6,662	370,379	3.8%	10,609
Time	98,349	4.0%	2,923	91,247	4.8%	3,307
Other	22,184	5.4%	889	17,527	6.0%	782
Total interest bearing liabilities	516,151	2.7%	10,484	484,716	4.1%	14,731
Noninterest-bearing liabilities:						
Demand deposits	221,257			201,103		
Accrued expenses and other liabilities	9,258			10,209		
Shareholders' equity	68,017			54,143		
TOTAL	$ 814,683			$ 750,171		
Net interest income and margin		6.0%	$ 34,743		6.7%	$ 35,210

(1) Loan fee amortization of $4.3 million and $4.3 million, respectively, is included in interest income. Nonperforming loans have been included in average loan balances.
(2) Interest income is reflected on an actual basis, not a fully taxable equivalent basis. Yields are based on amortized cost.
(3) Net of average allowance for credit losses of $11.9 million and $7.5 million, respectively.

The following table shows the effect of the interest differential of volume and rate changes for the nine months ended September 30, 2008 and 2007. The change in interest due to both rate and volume has been allocated in proportion to the relationship of absolute dollar amounts of change in each.

(dollars in thousands)	Nine months ended September 30, 2008 vs. 2007		
	Increase (decrease) due to change in		
	Average Volume	Average Rate	Total Change
Interest income:			
Loans	$ 6,704	(8,799)	$ (2,095)
Federal funds sold	(164)	(1,416)	(1,580)
Investment securities	(1,060)	(60)	(1,120)
Other	81	-	81
Total interest income	5,561	(10,275)	(4,714)
Interest expense:			
Demand	(1)	(22)	(23)
Savings	341	(4,288)	(3,947)
Time	211	(595)	(384)
Other	187	(80)	107
Total interest expense	738	(4,985)	(4,247)
Change in net interest income	$ 4,823	$ (5,290)	$ (467)

Interest Income

Interest income of $45.2 million in the nine months ended September 30, 2008 represented a decrease of $4.7 million, or 9.4%, from $49.9 million in the same period one year earlier. The decrease in interest income was primarily due to a decrease in interest rates, offset in part by growth in average earning assets. Average earning assets for the nine months ended September 30, 2008 were $772.8 million and represented growth of $71.0 million or 10.1% over $701.8 million for the same period in 2007.

Average gross loans were $684.7 million for the nine months ended September 30, 2008, an increase of $106.5 million or 18.4% over $578.2 million for the same period one year earlier. Average loans comprised 88.6% of average earning assets in the nine months ended September 30, 2008 compared to 82.4% in the first nine months of 2007. During the nine months ended September 30, 2008, the ratio of average gross loans to average deposits (one measure of leverage) was 95.7%, compared to 86.5% in the comparable period of 2007.

The average yield on earning assets was 7.8% for the nine months ended September 30, 2008 and 9.5% for the nine months ended September 30, 2007. The majority of the Company's earning assets, including a majority of loans, are priced to adjust with movements in short-term interest rates, particularly the prime rate, and the decrease in yield was primarily due to decreases in the prime rate during 2008. The Company's prime rate averaged 5.43% in the nine months ended September 30, 2008 compared to 8.23% in the same period one year earlier.

Other earning assets, consisting of investment securities, federal funds sold and interest-bearing deposits, averaged $88.1 million for the nine months ended September 30, 2008, a decrease of $35.5 million or 28.7% from $123.6 million for the nine months ended September 30, 2006.

Interest Expense

Interest expense was $10.5 million for the nine months ended September 30, 2008, which represented a decrease of $4.2 million or 28.8% from $14.7 million for the comparable period of 2007. The decrease in interest expense reflects and lower interest rates paid on liabilities in 2008 compared to 2007, offset in part by growth in average interest-bearing liabilities. Average interest-bearing liabilities were $516.2 million for the nine months ended September 30, 2008, an increase of $31.5 million, or 6.5%, over $484.7 million for the same period one year earlier.
Growth in average interest bearing liabilities was primarily due to growth in average interest bearing deposits. Average interest bearing deposits were $494.0 million for the nine months ended September 30, 2008, which represented 69.1% of total average deposits and was an increase of $26.8 million, or 5.7%, over $467.2 million representing 69.9% of total average deposits in the first nine months of 2007.

Other (non-deposit) interest bearing liabilities are primarily comprised of junior subordinated debt securities issued by the Company. The junior subordinated debt is intended to supplement capital requirements of the Company at a rate of interest that is fixed for five years. Other interest bearing liabilities averaged $22.2 million in the nine months ended September 30, 2008 compared to $17.5 million for the same period one year earlier.

The average rate paid on interest-bearing liabilities of 2.7% in the nine months ended September 30, 2008 compared to 4.1% in the first nine months of 2007.

Net interest income is the principal source of the Company's operating earnings. Significant factors affecting net interest income are: rates, volumes and mix of the loan, investment and deposit portfolios. Due to the nature of the Company's lending markets, in which the majority of loans are generally tied to prime rate, it is believed that an increase in interest rates should positively affect the Company's future earnings, while a decline should have a negative impact. However, it is not feasible to provide an accurate measure of such a change because of the many factors (many of them uncontrollable) influencing the result.

Credit Risk and Provision for Credit Losses

The Company maintains an allowance for credit losses which is based, in part, on the Company's and industry loss experience, the impact of economic conditions within the Company's market area and, as applicable, the State of California and/or national macroeconomic conditions, the value of underlying collateral, loan performance and inherent risks in the loan portfolio. The allowance is reduced by charge-offs and increased by provisions for credit losses charged to operating expense and recoveries of previously charged-off loans.

The Company provided $27.6 million to the allowance for credit losses for the nine months ended September 30, 2008, compared to $1.7 million for the same period in 2007.

The Company's loan charge-offs totaled $18.4 million during the nine months ended September 30, 2008, compared to $1.3 million for the same period one year earlier. The Company recognized $35,000 and $254,000 in loan recoveries for the nine months ended September 30, 2008 and 2007, respectively.

The following schedule provides an analysis of the allowance for credit losses for the nine months ended September 30, 2008 and 2007, respectively:

(dollars in thousands)	Nine months ended September 30,	
	2008	2007
Balance, beginning of period	$ 8,608	$ 7,329
Provision for credit losses	27,570	1,675
Charge-offs	(18,449)	(1,255)
Recoveries	35	254
Balance, end of period	$ 17,764	$ 8,003

See "Summary of Financial Results – Quarter ended September 30, 2008 – Provision for Credit Losses" for a discussion of the allowance for credit losses and nonperforming assets.

Non-interest Income

The following table sets forth the components of other income and the percentage distribution of such income for the nine months ended September 30, 2008 and 2007:

(dollars in thousands)	Nine months ended September 30,			
	2008		2007	
	Amount	Percent	Amount	Percent
International fee income	$ 1,403	26.3%	$ 434	8.1%
Depositor service charges	814	15.2%	497	9.3%
Gain on sale of securities	711	13.3%	-	0.0%
SBA loan servicing income	326	6.1%	338	6.3%
Other income - cash flow hedge	603	11.3%	-	0.0%
Gain on sale of SBA loans	556	10.4%	2,985	55.9%
Increase in value of life insurance	303	5.7%	308	5.8%
Other operating income	625	11.7%	780	14.6%
	$ 5,341	100.0%	$ 5,342	100.0%

Non-interest income totaled $5.3 million in the first nine months of 2008 and 2007. Non-interest income consists primarily of international fee income, gains recognized on sales of securities and SBA loans, SBA loan servicing income, and packaging fees and service charge income on deposit accounts.

For the nine months ended September 30, 2008 international fee income was $1.4 million compared to $434,000 for the nine months ended September 30, 2007. Additionally, included in non-interest income for the nine months ended September 30, 2008 was a hedge accounting adjustment of $603,000 pertaining to the Company's interest rate swap and $711,000 from the sale of securities.

Revenue from sales of SBA loans is dependant on consistent origination and funding of new loan volumes, the timing of which may be impacted, from time to time, by (1) increased competition from other lenders; (2) the relative attractiveness of SBA borrowing to other financing options; (3) adjustments to programs by the SBA; (4) changes in activities of secondary market participants and; (5) other factors. Gains recognized on sales of SBA loans were $556,000 in the nine months ended September 30, 2008 which represented a decrease of $2.4 million or 81.4% compared to $3.0 million for the same period one year earlier. The decrease was attributed to a lower volume of loans sold during the nine months ended September 30, 2008. During the nine six months of 2008 the Company sold $20.3 million in loans compared to $75.0 million sold in the same period one year earlier. The SBA loans sold during the first nine months of 2007 included $11.3 million of un-guaranteed loans which resulted in an additional $1.2 million of non-interest income from the gain on sale for that period.

Non-interest Expense

The components of other expense as a percentage of average earning assets are set forth in the following table for the nine months ended September 30, 2008 and 2007.

(dollars in thousands)	Nine months ended September 30,			
	2008		2007	
	Amount	Percent	Amount	Percent
Salaries and benefits	$ 17,421	3.0%	$ 15,796	3.0%
Occupancy	2,693	0.5%	2,450	0.5%
Data processing	1,769	0.3%	1,471	0.3%
Marketing and advertising	993	0.2%	1,105	0.2%
Director/shareholder expense	815	0.1%	473	0.1%
Legal and professional	738	0.1%	860	0.2%
Furniture and equipment	731	0.1%	699	0.1%
Deposit services	612	0.1%	719	0.1%
Other	2,277	0.4%	1,418	0.3%
	$ 28,049	4.8%	$ 24,991	4.8%

Operating expenses were $28.1 million for the nine months ended September 30, 2008, an increase of $3.1 million or 12.2% from $25.0 million for the nine months ended September 30, 2007. As a percentage of average earning assets, other expenses for the nine months ended September 30, 2008 and 2007 were 4.8% and 4.8%, respectively, on an annualized basis. In 2008, operating expenses were comprised primarily of salaries and benefits of $17.4 million, which compared to $15.8 million in 2007. The increase in salaries and benefits was primarily due to the additional headcount related to expansion of the business. At September 30, 2008, the Company employed 170 FTE compared to 164 FTE on the same date one year earlier. In addition, salaries and benefits included a charge of $1.0 million and $850,000 to recognize compensation related to stock option grants as a result of the implementation of FAS No. 123R in 2008 and 2007, respectively. Occupancy and data processing expense for the first nine months of 2008 was $4.5 million representing an increase of $541,000, or 13.8%, compared to $3.9 million for the same period one year earlier. The increase was primarily due to expansion of the business. Other expense for the nine months ended September 30, 2008 was $2.3 million compared to $1.4 million for the same period in 2007. The increase was primarily attributable to increases in fees and assessments.

Balance Sheet

Total assets of the Company at September 30, 2008 were $855.4 million, an increase of $80.6 million, or 10.4%, as compared to $774.8 million at December 31, 2007. Growth in total assets was principally due to an increase in loan balances.

The following table shows the Company's loans by type and their percentage distribution for the periods ended September 30, 2008 and December 31, 2007.

(dollars in thousands)	September 30, 2008	December 31, 2007
Commercial	$ 286,793	$ 272,660
SBA	69,921	56,945
Real estate construction	97,255	85,378
Land loans	41,136	56,196
Real estate other	130,845	114,846
Factoring and asset based lending	50,006	57,662
Other	10,767	9,042
Total gross loans	686,723	652,729
Unearned fee income	(1,817)	(1,856)
Total gross loans	684,906	650,873
Less allowance for credit losses	(17,764)	(8,608)
Total loans, net	$ 667,142	$ 642,265
Commercial	41.7%	41.8%
SBA	10.2%	8.7%
Real estate construction	14.2%	13.1%
Land loans	6.0%	8.6%
Real estate other	19.0%	17.6%
Factoring and asset based lending	7.3%	8.8%
Other	1.6%	1.4%
Total gross loans	100.0%	100.0%

Net loan balances increased to $667.1 million at September 30, 2008, which represented an increase of $24.9 million, or 3.9%, as compared to $642.3 million at December 31, 2007. The increase in loans was primarily in commercial and industrial loans and commercial real estate loans without a concentration in any one specific category of loans.

The Company's commercial loan portfolio represents loans to small and middle-market businesses in the Santa Clara County region. Commercial loans were $286.8 million at September 30, 2008, which represented an increase of $14.1 million, or 5.2%, compared to $272.7 million at December 31, 2007. At September 30, 2008, commercial loans comprised 41.7% of total loans outstanding compared to 41.8% at December 31, 2007.

The Company, as a Preferred Lender, originates SBA loans and participates in the SBA 7A and 504 SBA lending programs. Under the 7A program, a loan is made for commercial or real estate purposes. The SBA guarantees these loans and the guarantee may range from 75% to 85% of the total loan. In addition, the loan could be collateralized by a deed of trust on real estate. Under the 504 program, the Company lends directly to the borrower and takes a first deed of trust to the subject property. In addition the SBA, through a Certified Development Corporation, makes an additional loan to the borrower and takes a deed of trust subject to the Company's position. At September, 2008, SBA loans comprised $69.9 million, or 10.2%, of total loans, an increase of $13.0 million, or 22.8%, from $56.9 million at December 31, 2007. The Company has the ability and the intent to sell all or a portion of the SBA loans and, as such, carries the saleable portion of SBA loans at the lower of aggregate cost or fair value. At September 30, 2008 and December 31, 2007, the fair value of SBA loans exceeded aggregate cost and therefore, SBA loans were carried at aggregate cost.

The Company's construction loan portfolio primarily consists of loans to finance individual single-family residential homes, approximately half of which are owner-occupied projects. Construction loans increased $11.9 million, or 13.9%, to $97.3 million at September 30, 2008 over $85.4 million at December 31, 2007. Construction loan balances at September 30, 2008 and December 31, 2007 comprised 14.2% and 13.1%, respectively, of total loans.

Other real estate loans increased $939,000 or 0.5% to $172.0 million at September 30, 2008 over $171.0 million at December 31, 2007. The increase in other real estate loans was approximately equally split between home equity lines of credit and other real estate term loans. Other real estate loans represented 25.0% of total loans at September 30, 2008 compared to 26.2% at December 31, 2007.

Factoring and asset-based lending represents purchased accounts receivable (factoring) and a structured accounts receivable lending program where the Company receives client specific payment for client invoices. Under the factoring program, the Company purchases accounts receivable invoices from its clients and then receives payment directly from the party obligated for the receivable. In most cases the Company purchases the receivables subject to recourse from the Company's factoring client. The asset-based lending program requires a security interest in all of a client's accounts receivable. At September 30, 2008, factoring/asset- based loans totaled $50.0 million or 7.3% of total loans, a slight decrease as compared to $57.7 million or 8.8% of total loans at December 31, 2007.

Other loans consist primarily of loans to individuals for personal uses, such as installment purchases, overdraft protection loans and a variety of other consumer purposes. At September 30, 2008, other loans totaled $10.8 million as compared to $9.0 million at December 31, 2007.

Deposits represent the Company's principal source of funds. Most of the Company's deposits are obtained from professionals, small- to medium sized businesses and individuals within the Company's market area. The Company's deposit base consists of non-interest and interest-bearing demand deposits, savings and money market accounts and certificates of deposit. The following table summarizes the composition of deposits as of September 30, 2008 and December 31, 2007.

(dollars in thousands)	September 30, 2008		December 31, 2007	
	Amount	Percent	Amount	Percent
Noninterest-bearing demand	$ 223,843	30.30%	$ 198,641	29.59%
Interest-bearing demand	4,224	0.57%	5,350	0.80%
Money market and savings	404,212	54.72%	372,923	55.55%
Certificates of deposit:				
Less than $100	45,232	6.12%	22,896	3.41%
$100 and more	61,228	8.29%	71,546	10.65%
Total deposits	$ 738,739	100.00%	$ 671,356	100.00%

Deposits increased $67.4 million or 10.0% from $671.4 million at December 31, 2007 to $738.7 million at September 30, 2008. The increase in deposits was primarily in noninterest-bearing demand accounts. The increase was a result of marketing efforts to attract such deposits in order to meet the Bank's liquidity needs and to accommodate projected loan funding. As of September 30, 2008, demand deposits and core deposits continued to represent 30.8% and 85.6%, respectively.

Leverage

Total gross loan balances at September 30, 2008 were $686.7million. The resulting loan to deposit ratio was 93.0%. Other earning assets at September 30, 2008 were primarily comprised of investment securities, federal funds sold and interest-bearing deposits of $118.8 million. To date, the Company has deployed earning assets primarily in federal funds sold to address the potential volatility of deposit balances and to accommodate projected loan funding, and in short term fixed rate investments to mitigate interest rate risk associated with the Company's asset-sensitive balance sheet.

Capital Resources

The Company and the Bank are subject to the capital guidelines and regulations governing capital adequacy for bank holding companies and national banks. Additional capital requirements may be imposed on banks based on market risk. The FDIC requires a leverage ratio of 8.00% for new banks during the first three years of operation.

After the first three years of operations, the Comptroller requires a minimum leverage ratio of 3.00% for national banks that have received the highest composite regulatory rating (a regulatory measurement of capital, assets, management, earnings and liquidity) and that are not anticipating or experiencing any significant growth. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3.00% minimum.

The Comptroller's regulations also require national banks to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.00%. Risk-based capital ratios are calculated with reference to risk-weighted assets, including both on and off-balance sheet exposures, which are multiplied by certain risk weights assigned by the Comptroller to those assets. At least one-half of the qualifying capital must be in the form of Tier 1 capital.

The risk-based capital ratio focuses principally on broad categories of credit risk, and might not take into account many other factors that can affect a bank's financial condition. These factors include overall interest rate risk exposure; liquidity, funding and market risks; the quality and level of earnings; concentrations of credit risk; certain risks arising from nontraditional activities; the quality of loans and investments; the effectiveness of loan and investment policies; and management's overall ability to monitor and control financial and operating risks, including the risk presented by concentrations of credit and nontraditional activities. The Comptroller has addressed many of these areas in related rule-making proposals. In addition to evaluating capital ratios, an overall assessment of capital adequacy must take account of each of these other factors including, in particular, the level and severity of problem and adversely classified assets. For this reason, the final supervisory judgment on a bank's capital adequacy may differ significantly from the conclusions that might be drawn solely from the absolute level of the Company's risk-based capital ratio. The Comptroller has stated that banks generally are expected to operate above the minimum risk-based capital ratio. Banks contemplating significant expansion plans, as well as those institutions with high or inordinate levels of risk, should hold capital consistent with the level and nature of the risks to which they are exposed.

Further, the banking agencies have adopted modifications to the risk-based capital regulations to include standards for interest rate risk exposures. Interest rate risk is the exposure of a bank's current and future earnings and equity capital arising from movements in interest rates. While interest rate risk is inherent in a bank's role as financial intermediary, it introduces volatility to bank earnings and to the economic value of the Company. The banking agencies have addressed this problem by implementing changes to the capital standards to include a bank's exposure to declines in the economic value of its capital due to changes in interest rates as a factor that the banking agencies consider in evaluating an institution's capital adequacy. Bank examiners consider a bank's historical financial performance and its earnings exposure to interest rate movements as well as qualitative factors such as the adequacy of a bank's internal interest rate risk management.

Finally, institutions with significant trading activities must measure and hold capital for exposure to general market risk arising from fluctuations in interest rates, equity prices, foreign exchange rates and commodity prices and exposure to specific risk associated with debt and equity positions in the trading portfolio. General market risk refers to changes in the market value of on-balance-sheet assets and off-balance-sheet items resulting from broad market movements. Specific market risk refers to changes in the market value of individual positions due to factors other than broad market movements and includes such risks as the credit risk of an instrument's issuer. The additional capital requirements apply effective January 1, 1998 to institutions with trading assets and liabilities equal to 10.0% or more of total assets or trading activity of $1.0 billion or more. The federal banking agencies may apply the market risk regulations on a case-by-case basis to institutions not meeting the eligibility criteria if necessary for safety and soundness reasons.

In connection with the recent regulatory attention to market risk and interest rate risk, the federal banking agencies will evaluate an institution in its periodic examination on the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can affect a financial institution's earnings or capital. In addition, the agencies focus in the examination on an institution's ability to monitor and manage its market risk, and will provide management with a clearer and more focused indication of supervisory concerns in this area.

Under certain circumstances, the Comptroller may determine that the capital ratios for a national bank shall be maintained at levels, which are higher than the minimum levels required by the guidelines. A national bank which does not achieve and maintain adequate capital levels as required may be subject to supervisory action by the Comptroller through the issuance of a capital directive to ensure the maintenance of required capital levels. In addition, the Company is required to meet certain guidelines of the Comptroller concerning the maintenance of an adequate allowance for loan and lease losses.

The Company's Tier 1 capital at September 30, 2008 was $72.5 million, which was comprised of $39.1 million of capital stock and surplus, $16.4 million in retained earnings and trust preferred securities up to the allowable limit of $17.0 million.

The following table shows the Company's capital ratios at September 30, 2008 and December 31, 2007 as well as the minimum capital ratios required to be deemed "well capitalized" under the regulatory framework.

(dollars in thousands)	As of September 30, 2008		As of December 31, 2007	
	Amount	Ratio	Amount	Ratio
Company Capital Ratios				
Tier 1 Capital	$ 72,466	9.02%	$ 80,024	10.54%
(to Risk Weighted Assets)				
Tier 1 capital minimum requirement	$ 48,226	6.00%	$ 45,564	6.00%
Total Capital	$ 82,513	10.27%	$ 88,632	11.67%
(to Risk Weighted Assets)				
Total capital minimum requirement	$ 80,377	10.00%	$ 75,940	10.00%
Company Leverage				
Tier 1 Capital	$ 72,466	8.44%	$ 80,024	10.66%
(to Average Assets)				
Tier 1 capital minimum requirement	$ 42,928	5.00%	$ 37,527	5.00%
Bank Capital Ratios				
Tier 1 Capital	$ 70,394	8.77%	$ 77,096	10.17%
(to Risk Weighted Assets)				
Tier 1 capital minimum requirement	$ 48,154	6.00%	$ 45,491	6.00%
Total Capital	$ 80,426	10.02%	$ 85,704	11.30%
(to Risk Weighted Assets)				
Total capital minimum requirement	$ 80,256	10.00%	$ 75,819	10.00%
Bank Leverage				
Tier 1 Capital	$ 70,394	8.21%	$ 77,096	10.27%
(to Average Assets)				
Tier 1 capital minimum requirement	$ 42,866	5.00%	$ 37,523	5.00%

The Company and the Bank were considered well capitalized at September 30, 2008.

Stock Repurchase Program

Effective May 5 2008, the Company announced a stock repurchase program to repurchase up to $5.0 million in shares of the Company for a nineteen month period extending to December 31, 2009. Buying under the program will be at management's discretion taking into consideration such factors as the market price of the stock, available cash flow, general economic conditions and other factors. As of September 30, 2008, no share repurchases have occurred.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Liquidity/Interest Rate Sensitivity

The Company manages its liquidity to provide adequate funds at an acceptable cost to support borrowing requirements and deposit flows of its customers. The increased level of nonperforming assets at September 30, 2008 may have the potential to impact the Company's ability to raise deposits and could result in higher deposit costs and/or lower liquidity. At September 30, 2008 and December 31, 2007, liquid assets as a percentage of deposits were 19.0% and 14.4%, respectively. In addition to cash and due from banks, liquid assets include interest-bearing deposits in other banks, Federal funds sold and securities available for sale. The Company has $25.0 million in Federal funds lines of credit available with correspondent banks to meet liquidity needs. At September 30, 2008, there were no balances outstanding on these lines. Additionally, as of September 30, 2008, the Company had a total borrowing capacity with the Federal Home Loan Bank of San Francisco of approximately $121.0 million for which the Company had collateral in place to borrow $76.0 million. As of September 30, 2008, $10.0 million of this borrowing capacity was pledged to secure a letter of credit and $30.0 million pledged to secure other borrowings.

The Company's balance sheet position is asset-sensitive (based upon the significant amount of variable rate loans and the repricing characteristics of its deposit accounts). This balance sheet position generally provides a hedge against rising interest rates, but has a detrimental effect during times of interest rate decreases. Net interest income is generally negatively impacted in the short term by a decline in interest rates. Conversely, an increase in interest rates should have a short-term positive impact on net interest income.

The following table sets forth the distribution of repricing opportunities, based on contractual terms of the Company's earning assets and interest-bearing liabilities at September 30, 2008, the interest rate sensitivity gap (i.e. interest rate sensitive assets less interest rate sensitive liabilities), the cumulative interest rate sensitivity gap, the interest rate sensitivity gap ratio (i.e. interest rate sensitive assets divided by interest rate sensitive liabilities) and the cumulative interest rate sensitivity gap ratio.

(dollars in thousands)

	As of September 30, 2008					
	Within three months	After three months but within six months	After six months but within one year	After one year but within five years	After five years	Total
Federal funds sold	$ 113,735	$ -	$ -	$ -	$ -	$ 113,735
Interest bearing deposits in other banks	1,380	981	2,554	-	-	4,915
U.S. Treasury securities	101	-	-	-	-	101
Agency securities	-	-	-	-	-	-
Loans	360,573	23,597	76,140	98,722	127,691	686,723
Total earning assets	$ 475,789	$ 24,578	$ 78,694	$ 98,722	$ 127,691	$ 805,474
Interest checking, money market and savings	408,436	-	-	-	-	408,436
Certificates of deposit:						
Less than $100,000	4,093	14,683	21,858	4,598	-	45,232
$100,000 or more	27,478	23,710	6,636	3,404		61,228
Other	-	20,000	10,000	-	17,527	47,527
Total interest-bearing liabilities	$ 440,007	$ 58,393	$ 38,494	$ 8,002	$ 17,527	$ 562,423
Interest rate gap	$ 35,782	$ (33,815)	$ 40,200	$ 90,720	$ 110,164	$ 243,051
Cumulative interest rate gap	$ 35,782	$ 1,967	$ 42,167	$ 132,887	$ 243,051	
Interest rate gap ratio	0.08	(1.38)	0.51	0.92	0.86	
Cumulative interest rate gap ratio	0.08	0.00	0.07	0.20	0.30	

Based on the contractual terms of its assets and liabilities, the Company's balance sheet at September 30, 2008 was asset sensitive in terms of its short-term exposure to interest rates. That is, at September 30, 2008 the volume of assets that might reprice within the next year exceeded the volume of liabilities that might reprice. This position provides a hedge against rising interest rates, but has a detrimental effect during times of rate decreases. Net interest income is negatively impacted by a decline in interest rates and positively impacted by an increase in interest rates. To partially mitigate the adverse impact of declining rates, a significant portion of variable rate loans made by the Company have been written with a minimum "floor" rate. In addition, the Company has invested in short-term fixed rate securities and entered into interest rate swaps to hedge the variable cash flows associated with $100.0 million of existing variable-rate assets.

The following table shows maturity and interest rate sensitivity of the loan portfolio at September 30, 2008 and December 31, 2007. At September 30, 2008, approximately 83.4% of the loan portfolio is priced with floating interest rates which limit the exposure to interest rate risk on long-term loans.

(dollars in thousands)	As of September 30, 2008			
	Amount	Due one year or less	Due after one year through five years	Due after five years
Commercial and other	$ 286,793	$ 156,639	$ 103,603	$ 26,551
SBA	69,921	6,689	4,261	58,971
Real estate construction	97,255	92,489	4,766	-
Land loans	41,136	36,608	2,254	2,274
Real estate-other	130,845	22,271	31,605	76,969
Factoring / Asset-Based Lending	50,006	47,304	2,702	-
Other	10,767	10,267	500	-
Total loans	$ 686,723	$ 372,267	$ 149,691	$ 164,765

	As of December 31, 2007			
	Amount	Due one year or less	Due after one year through five years	Due after five years
Commercial and other	$ 272,660	$ 161,013	$ 84,173	$ 27,474
SBA	56,945	12,059	3,174	41,712
Real estate construction	85,378	74,457	10,921	-
Land loans	56,196	52,880	3,316	-
Real estate-other	114,846	5,790	39,245	69,811
Factoring / Asset-Based Lending	57,662	55,834	1,828	-
Other	9,042	8,272	770	-
Total loans	$ 652,729	$ 370,305	$ 143,427	$ 138,997

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

The definition of "off-balance sheet arrangements" includes any transaction, agreement or other contractual arrangement to which an entity is a party under which we have:

- Any obligation under a guarantee contract that has the characteristics as defined in paragraph 3 of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantee including Indirect Guarantees of Indebtedness to Others" ("FIN 45");
- A retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets, such as a subordinated retained interest in a pool of receivables transferred to an unconsolidated entity;
- Any obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument, except that it is both indexed to the registrant's own stock and classified in stockholders' equity; or

- Any obligation, including contingent obligations, arising out of a material variable interest, as defined in FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

In the ordinary course of business, we have issued certain guarantees which qualify as off-balance sheet arrangements, as of September 30, 2008 those guarantees include the following:

- Standby Letters of Credit in the amount of $17.1 million.

The table below summarizes the Company's off-balance sheet contractual obligations:

(dollars in thousands)	As of September 30, 2008				
	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term contracts	13,728	$ 941	$ 4,315	$ 3,069	$ 5,403
Operating leases	-	-	-	-	-
Total	$ 13,728	$ 941	$ 4,315	$ 3,069	$ 5,403

ITEM 4 – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by SEC rules, the Company's management evaluated the effectiveness, as of September 30, 2007, of the Company's disclosure controls and procedures. The Company's chief executive officer and chief financial officer participated in the evaluation. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2008.

Internal Control over Financial Reporting

Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use of disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No change occurred during the third quarter of 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

The Company is not a defendant in any pending material legal proceedings and no such proceedings are known to be contemplated. No director, officer, affiliate, more than 5% shareholder of the Company, or any associate of these persons is a party adverse to the Company or has a material interest adverse to the Company in any material legal proceeding.

ITEM 1A – RISK FACTORS

There were no material changes in the risk factors that were disclosed in Item 1A, under the caption "Risk Factors" in Part I of our Annual Report on Form 10-K for our fiscal year ended December 31, 2007.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5 – OTHER INFORMATION

Not applicable

ITEM 6 – EXHIBITS

(a) Exhibits

See Index to Exhibits at page 39 of this Quarterly Report on Form 10-Q.

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.

BRIDGE CAPITAL HOLDINGS

Dated: November 6, 2008

By: /s/ Daniel P. Myers
Daniel P. Myers
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 6, 2008

By: /s/ Thomas A. Sa
Thomas A. Sa
Executive Vice President
Chief Administrative Officer and Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibit
(31.1)	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32.1)	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
(32.2)	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350

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Section 2: EX-31.1

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO Rule 13a-14(a)/15(d)-14(a)

I, Daniel P. Myers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bridge Capital Holdings for the quarter ended September 30, 2008;

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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the third quarter of 2008 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 officer 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: November 6, 2008	/s/ Daniel P. Myers
	Daniel P. Myers President and Chief Executive Officer

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Section 3: EX-31.2

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO Rule 13a-14(a)/15(d)-14(a)

I, Thomas A. Sa, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bridge Capital Holdings for the quarter ended September 30, 2008;

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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the third quarter of 2008 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 officer 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: November 6, 2008

/s/ Thomas A. Sa

Thomas A. Sa
Executive Vice President
Chief Administrative Officer and Chief Financial Officer
(Principal Financial Officer)

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Section 4: EX-32.1

EXHIBIT 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying quarterly report on Form 10-Q of Bridge Capital Holdings for the quarter ended September 30, 2008, I, Daniel P. Myers, President and Chief Executive Officer of Bridge Capital Holdings, 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) such Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Bridge Capital Holdings.

Date: November 6, 2008

/s/ Daniel P. Myers

Daniel P. Myers
President and Chief Executive Officer

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Section 5: EX-32.2

EXHIBIT 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying quarterly report on Form 10-Q of Bridge Capital Holdings for the quarter ended September 30, 2008, I, Thomas A. Sa, Executive Vice President and Chief Financial Officer of Bridge Capital Holdings, 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) such Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Bridge Capital Holdings.

Date: November 6, 2008

/s/ Thomas A. Sa

Thomas A. Sa
Executive Vice President
Chief Administrative Officer and Chief Financial Officer
(Principal Financial Officer)

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