

PFF BANCORP INC  
Form 10-Q/A  
April 10, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q/A**

**(AMENDMENT NO. 2)**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended December 31, 2007

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-16845

**PFF BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**95-4561623**  
(I.R.S. Employer I.D. No.)

**9337 Milliken Avenue, Rancho Cucamonga, California**  
(Address of principal executive offices)

**91730**  
(Zip Code)

**(909) 941-5400**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer .

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

The registrant had 22,624,961 shares of common stock, par value \$0.01 per share, outstanding as of January 31, 2008.

**EXPLANATORY NOTE**

This Form 10-Q/A (Amendment No. 2) is being filed solely to combine Part I, Item 1 of the Form 10-Q filed on February 8, 2008 (the Form 10-Q ) and Part I, Item 1 of the Form 10-Q/A (Amendment No. 1) filed on February 20, 2008 (the Initial Form 10-Q/A ). There are no other changes or amendments to the Form 10-Q or the Initial Form 10-Q/A.

**Item 1. Financial Statements.**

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

PFF Bancorp, Inc.:

We have reviewed the accompanying consolidated balance sheet of PFF Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2007, the related consolidated statements of earnings (losses) and comprehensive earnings (losses) for the three-month and nine-month periods ended December 31, 2007 and 2006, the related consolidated statement of stockholders' equity for the nine-month period ended December 31, 2007, and the related consolidated cash flows for the nine-month period ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity U.S. generally accepted accounting principles.

/s/ KPMG LLP

Los Angeles, California

February 14, 2008

**PFF BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share data)****(Unaudited)**

	<b>December 31, 2007</b>	<b>March 31, 2007</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 61,559	\$ 59,587
Investment securities held-to-maturity (estimated fair value of \$7,147 at December 31, 2007, and \$6,646 at March 31, 2007)	6,809	6,712
Investment securities available-for-sale, at fair value	1,661	28,067
Mortgage-backed securities available-for-sale, at fair value	165,190	186,607
Loans held-for-sale	1,674	
Loans and leases receivable, net (net of allowances for loan and lease losses of \$72,845 at December 31, 2007 and \$46,315 at March 31, 2007)	3,957,379	4,116,232
Federal Home Loan Bank (FHLB) stock, at cost	36,669	46,158
Accrued interest receivable	22,562	25,704
Assets acquired through foreclosure, net	973	
Property and equipment, net	60,192	56,564
Prepaid expenses and other assets	59,207	27,896
<b>Total assets</b>	<b>\$ 4,373,875</b>	<b>\$ 4,553,527</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Liabilities:</b>		
Deposits	\$ 3,246,534	\$ 3,291,645
FHLB advances and other borrowings	684,400	775,300
Junior subordinated debentures	87,630	56,702
Accrued expenses and other liabilities	29,030	32,767
<b>Total liabilities</b>	<b>4,047,594</b>	<b>4,156,414</b>
<b>Commitments and contingencies</b>		
<b>Stockholders equity:</b>		
Preferred stock, \$0.01 par value. Authorized 2,000,000 shares; none issued		
Common stock, \$0.01 par value. Authorized 59,000,000 shares; issued and outstanding 22,624,961 shares and 24,156,834 shares at December 31, 2007 and March 31, 2007, respectively	225	240
Additional paid-in capital	172,902	180,285
Retained earnings	157,692	221,892
Accumulated other comprehensive losses	(4,538)	(5,304)
<b>Total stockholders equity</b>	<b>326,281</b>	<b>397,113</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 4,373,875</b>	<b>\$ 4,553,527</b>

See accompanying notes to the unaudited consolidated financial statements.

## PFF BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

(Dollars in thousands, except per share data)

(Unaudited)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
<b>Interest income:</b>				
Loans and leases receivable	\$ 72,178	\$ 82,751	\$ 230,915	\$ 239,539
Mortgage-backed securities	1,947	2,648	5,999	8,025
Investment securities and deposits	730	1,578	2,387	4,750
<b>Total interest income</b>	<b>74,855</b>	<b>86,977</b>	<b>239,301</b>	<b>252,314</b>
<b>Interest expense:</b>				
Deposits	30,248	28,550	90,253	76,966
Borrowings	10,379	13,269	32,610	37,460
<b>Total interest expense</b>	<b>40,627</b>	<b>41,819</b>	<b>122,863</b>	<b>114,426</b>
Net interest income	34,228	45,158	116,438	137,888
Provision for loan and lease losses	35,000	1,900	90,800	4,920
Net interest income (expense) after provision for loan and lease losses	(772)	43,258	25,638	132,968
<b>Non-interest income:</b>				
Deposit and related fees	3,868	3,519	11,344	10,192
Loan and servicing fees	355	566	1,128	1,737
Trust, investment and insurance fees	1,325	1,529	4,541	4,353
Gain on sale of loans, net	37	81	152	164
Gain on sale of securities, net				271
Mark-to-market on interest rate swaps	(730)	(35)	(1,139)	(357)
Other non-interest income	254	349	929	1,754
<b>Total non-interest income</b>	<b>5,109</b>	<b>6,009</b>	<b>16,955</b>	<b>18,114</b>
<b>Non-interest expense:</b>				
<b>General and administrative:</b>				
Compensation and benefits	14,735	14,595	41,498	43,926
Occupancy and equipment	5,273	4,190	14,994	12,215
Marketing and professional services	3,397	3,088	9,901	9,405
Other general and administrative	6,668	4,136	14,577	11,410
<b>Total general and administrative</b>	<b>30,073</b>	<b>26,009</b>	<b>80,970</b>	<b>76,956</b>
Foreclosed asset operations, net	42	(355)	51	(470)
<b>Total non-interest expense</b>	<b>30,115</b>	<b>25,654</b>	<b>81,021</b>	<b>76,486</b>
Earnings (loss) before income taxes	(25,778)	23,613	(38,428)	74,596
Income taxes (benefit)	(11,095)	9,970	(16,754)	31,485

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Net earnings (loss)	\$ (14,683)	\$ 13,643	\$ (21,674)	\$ 43,111
Basic earnings (loss) per share	\$ (0.65)	\$ 0.56	\$ (0.94)	\$ 1.76
Weighted average shares outstanding for basic earnings (loss) per share calculation	22,592,898	24,557,623	23,116,004	24,500,157
Diluted earnings (loss) per share	\$ (0.65)	\$ 0.55	\$ (0.94)	\$ 1.74
Weighted average shares outstanding for diluted earnings (loss) per share calculation	22,592,898	24,893,341	23,116,004	24,819,134

See accompanying notes to the unaudited consolidated financial statements.

## PFF BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

(Dollars in thousands)

(Unaudited)

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2007	2006	2007	2006
Net earnings (loss)	\$ (14,683)	\$ 13,643	\$ (21,674)	\$ 43,111
Other comprehensive earnings (loss), net of income tax expense (benefit)				
Change in unrealized gains (loss) on:				
Investment securities available-for-sale, at fair value, net of income tax expense (benefit) of \$(2) and \$8 for three months ended December, 2007 and 2006, and \$(2) and \$64 for nine months ended December 31, 2007 and 2006, respectively	(3)	11	(3)	89
Mortgage-backed securities available-for-sale, at fair value, net of income tax expense of \$264 and \$259 for three months ended December 31, 2007 and 2006, and \$548 and \$872 for nine months ended December 31, 2007 and 2006, respectively	365	357	757	1,204
Reclassification of realized investment securities gains included in earnings (loss), net of income tax expense (benefit) of \$8 and \$(126) for nine months ended December 31, 2007 and 2006, respectively			11	(174)
Reclassification of realized mortgage-backed securities gains (loss) included in earnings (loss), net of income tax expense of \$1 and \$0 for nine months ended December 31, 2007 and 2006, respectively			1	
Reclassification of realized credits on interest rate swaps included in earnings (loss), net of income tax benefit of \$0 and \$67 for nine months ended December 31, 2007 and 2006, respectively				(93)
Other comprehensive income	362	368	766	1,026
Comprehensive earnings (loss)	\$ (14,321)	\$ 14,011	\$ (20,908)	\$ 44,137

See accompanying notes to the unaudited consolidated financial statements.

## PFF BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Dollars in thousands, except per share data)

(Unaudited)

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Losses)	Total
(Dollars in thousands, except share data)							
Balance at March 31, 2007	24,156,834	\$ 240	\$ 180,285	\$ 221,892	\$	\$ (5,304)	\$ 397,113
Net earnings (loss)				(21,674)			(21,674)
Repurchase of common stock	(1,611,975)		(7,657)	(29,443)	(16)		(37,116)
Stock issued for incentive plan	73,426						
Amortization under stock-based compensation plans			(82)				(82)
Stock options exercised	6,676	1	56				57
Stock options expense			239				239
Dividends (\$0.19 per share for June, September and December 2007)				(13,083)			(13,083)
Treasury stock retirement		(16)			16		
Changes in unrealized losses on securities AFS, net						766	766
Tax benefit from stock-based compensation			61				61
Balance at December 31, 2007	22,624,961	\$ 225	\$ 172,902	\$ 157,692	\$	\$ (4,538)	\$ 326,281

See accompanying notes to the unaudited consolidated financial statements.



## PFF BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended December 31,	
	2007	2006
Cash flows from operating activities:		
Net earnings (loss)	\$ (21,674)	\$ 43,111
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of premiums, net of discount accretion on loans, leases and securities	467	1,016
Dividends on FHLB stock	(1,591)	(1,609)
Provisions for losses on loans and leases	90,800	4,920
Gains on sales of loans, securities available-for-sale and property and equipment	(169)	(1,491)
Depreciation and amortization of property and equipment	4,752	3,400
Loans originated for sale	(1,674)	(12,666)
Proceeds from sale of loans held-for-sale		12,068
Amortization of stock-based compensation	(82)	3,480
Decrease in market value on interest rate swaps	1,139	357
Amortization of deferred issuance cost on junior subordinated debt	60	60
Deferred income tax expense (benefit)	(28,357)	(3,110)
Other, net	(4,047)	(1,194)
Net cash provided by operating activities	39,624	48,342
Cash flows from investing activities:		
Net change in loans and leases	66,725	(284,125)
Principal payments on mortgage-backed securities available-for-sale	36,878	50,004
Principal payments on investment securities-available-for-sale	1,464	1,464
Purchases of investment securities held-to-maturity	(5,802)	
Purchases of investment securities available-for-sale		(25,000)
Purchases of mortgage-backed securities available-for-sale	(14,501)	(42,449)
Redemption (purchases) of FHLB stock, net	11,080	(4,576)
Proceeds from maturity of investment securities	30,700	45,000
Proceeds from sale of investment securities available-for-sale		5,337
Proceeds from sale of property and equipment	37	1,218
Purchases of property and equipment	(8,380)	(12,781)
Net cash provided by (used in) investing activities	118,201	(265,908)
Cash flows from financing activities:		
Net change in deposits	(45,111)	181,545
Proceeds from long-term FHLB advances and other borrowings	436,750	779,800
Repayment of long-term FHLB advances and other borrowings	(522,650)	(714,100)
Net change in short-term FHLB advances and other borrowings	(5,000)	(10,000)
Proceeds from issuance of junior subordinated debentures	30,000	
Proceeds from exercise of stock options	57	604
Stock option expense	239	
Cash dividends	(13,083)	(12,530)
Excess tax benefit from stock-based compensation arrangements	61	1,235
Purchases of treasury stock	(37,116)	
Net cash provided by (used in) financing activities	(155,853)	226,554

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Net increase in cash and cash equivalents		1,972		8,988
Cash and cash equivalents, beginning of period		59,587		58,831
Cash and cash equivalents, end of period	\$	61,559	\$	67,819
Supplemental information:				
Interest paid	\$	125,727	\$	110,504
Income taxes paid	\$	13,800	\$	31,300
Non-cash investing and financing activities:				
Net transfers from loans and leases receivable to assets acquired through foreclosure	\$	1,178	\$	

See accompanying notes to the unaudited consolidated financial statements.

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**PFF BANCORP, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**(1) Basis of Consolidation**

The accompanying unaudited consolidated financial statements include the accounts of PFF Bancorp, Inc. (the Bancorp ) and its wholly-owned subsidiaries PFF Bank & Trust (the Bank ), Glencrest Investment Advisors, Inc. ( Glencrest ) and Diversified Builder Services, Inc. ( DBS ). Our business is conducted primarily through the Bank. The Bank includes the accounts of Pomona Financial Services, Inc. and Diversified Services, Inc. Glencrest includes the accounts of Glencrest Insurance Services, Inc. The Bancorp owns 100% of the common stock of three unconsolidated special purpose business trusts PFF Bancorp Capital Trust I , PFF Bancorp Capital Trust II and PFF Bancorp Capital Trust III created for the purpose of issuing capital securities. Subsequent to December 31, 2007, we established a new subsidiary, PFF Real Estate Services, Inc., a wholly owned subsidiary of PFF Bancorp Inc. PFF Real Estate Services, Inc. has not yet commenced operations. All material intercompany balances and transactions have been eliminated in consolidation. As used throughout this report, the terms we , our , us or the Company refer to the Bancorp and its consolidated subsidiaries.

Our unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In our opinion, all adjustments (consisting principally of normal recurring accruals) necessary for a fair presentation have been included. We have made certain reclassifications to the prior year s consolidated financial statements to conform to the current presentation. The results of operations for the three and nine months ended December 31, 2007 are not necessarily indicative of results that may be expected for the entire fiscal year ending March 31, 2008.

These interim consolidated financial statements should be read in conjunction with our consolidated financial statements, and the notes thereto, included in our Form 10-K for the year ended March 31, 2007.

**(2) New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS 157 Fair Value Measurements ( SFAS 157 ), which provides a definition of fair value, guidance on the methods used to measure fair value and also expands financial statement disclosure requirements for fair value information. SFAS 157 establishes a fair value hierarchy that distinguishes between assumptions based on market data from independent sources ( observable inputs ) and a reporting entity s internal assumptions based upon the best information available when external market data is limited or unavailable ( unobservable inputs ). The fair value hierarchy in SFAS 157 prioritizes inputs within three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application allowed for entities that have not issued financial statements in the fiscal year of adoption. We are currently assessing the impact that the adoption of SFAS 157 will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Liabilities ( SFAS 159 ), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. This statement is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous year provided that the company makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. We are currently assessing the impact that the adoption of SFAS 159 will have on our consolidated financial statements.

**PFF BANCORP, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**(Continued)**

**(3) Share-Based Payment Plans**

*2006 Equity Incentive Plan*

During December 2007, our Board of Directors granted 80,000 stock options to a new executive officer. These options were granted at an exercise price of \$16.27 with cliff vesting on March 31, 2010 and a contractual term of 9.73 years. As of December 31, 2007, the remaining vesting period is 2.25 years and the remaining contractual term is 9.70 years.

The fair value of each option is estimated on the grant date using the Black-Scholes model that applies the following assumptions: volatility, based on the historical volatility of our stock, is 32.95%; the expected term of options granted of five years represents the period of time the options are expected to be outstanding; the risk-free rate of 3.46% is the yield from United States government securities with the same terms as the life of the options; and dividend yield of 6.71% is calculated using the anticipated dividend payout rate of the stock over the life of the option.

Compensation expense associated with these options was \$2,000 for the three and nine months ended December 31, 2007 and the unrecognized compensation cost as of December 31, 2007 was \$96,000.

**PFF BANCORP, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

(Continued)

**(4) Earnings (Loss) Per Share**

Earnings per share ( EPS ) is calculated on both a basic and diluted basis, excluding common shares in treasury. Basic EPS is calculated by dividing net earnings (loss) available to common stockholders by the weighted average common shares outstanding during the period. Diluted EPS includes the potential dilution resulting from the assumed exercise of stock options, including the effect of shares exercisable under our stock-based payment plans.

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three months ended December 31, 2007 and 2006.

	For the Three Months Ended December 31,					
	2007		2006			
	Earnings (Loss) (Numerator)	Shares (Denominator)	Per-Share Amount	Earnings (Loss) (Numerator)	Shares (Denominator)	Per-Share Amount
(Dollars in thousands, except per share data)						
Net Earnings (Loss)	\$ (14,683)			\$ 13,643		
<b>Basic EPS</b>						
Earnings (loss) available to common stockholders	(14,683)	22,592,898	\$ (0.65)	13,643	24,557,623	\$ 0.56
<b>Effect of Dilutive Securities</b>						
Options and stock awards (1) (2)					335,718	
<b>Diluted EPS</b>						
Earnings (loss) available to common stockholders and assumed conversions	\$ (14,683)	22,592,898	\$ (0.65)	\$ 13,643	24,893,341	\$ 0.55

(1) For the three months ended December 31, 2007, the dilutive effect of 34,818 shares was excluded from the computation of diluted earnings per share due to anti-dilution.

(2) The exercise price of all options was less than the average market price of the common shares during the three month period ended December 31, 2006. As a result, there were no options excluded from the computation of earnings per share due to anti-dilution.

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**PFF BANCORP, INC. AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements****(Continued)**

The following table presents a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the nine months ended December 31, 2007 and 2006.

	For the Nine Months Ended December 31,					
	Earnings (Loss) (Numerator)	2007 Shares (Denominator)	Per-Share Amount	Earnings (Loss) (Numerator)	2006 Shares (Denominator)	Per-Share Amount
Net Earnings (Loss)	\$ (21,674)			\$ 43,111		
<b>Basic EPS</b>						
Earnings (loss) available to common stockholders	(21,674)	23,116,004	\$ (0.94)	43,111	24,500,157	\$ 1.76
<b>Effect of Dilutive Securities</b>						
Options and stock awards (1) (2)					318,977	
<b>Diluted EPS</b>						
Earnings (loss) available to common stockholders and assumed conversions	\$ (21,674)	23,116,004	\$ (0.94)	\$ 43,111	24,819,134	\$ 1.74

- (1) For the nine months ended December 31, 2007, the dilutive effect of 150,275 shares was excluded from the computation of diluted earnings per share due to anti-dilution.
- (2) The exercise price of all options was less than the average market price of the common shares during the nine month period ended December 31, 2006. As a result, there were no options excluded from the computation of earnings per share due to anti-dilution.

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**PFF BANCORP, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**(Continued)**

**(5) Other Borrowings**

During the quarter ended December 31, 2007, our \$75.0 million line of credit with a commercial bank matured and we renegotiated a line of credit of \$60.0 million with the same commercial bank with a maturity date of August 31, 2008. See Item 1 - Business Sources of Funds in our March 31, 2007 Annual Report on Form 10-K. The covenants in the new line of credit included the following:

Bank and the Company must show a net profit on a rolling four-quarter basis;

Bank and the Company must maintain at all times a ratio of non-performing loans (as defined) to total loans which is equal to or less than 6.00%, tested quarterly;

Bank and the Company must maintain well capitalized regulatory capital ratios, as required by federal regulators;

Company must maintain a consolidated tangible net worth of not less than \$320.0 million, tested quarterly;

Company shall not merge into or consolidate with any other business enterprises, or another business enterprise shall not merge into the Company, without prior written consent of the lender;

an event of default shall occur if the Company and/or Bank become subject to a Memorandum of Understanding a Cease and Desist Order or other regulatory action that reflects any material adverse change in the safety and soundness of the Company and/or Bank;

all obligations to lender shall become due and payable upon the sale of, or change in control of the Company or Bank; and

the Company shall maintain a demand deposit account balance in an amount not less than 2% of the note amount.

The Company is required to provide the lender with copies of (a) all quarterly Thrift Financial Reports of the Bank no later than the due date required by the Office of Thrift Supervision, (b) a balance sheet and related statements of income and retained earnings and cash flow within 120 days after the end of each fiscal year and 45 days after the end of each quarter, and (c) asset quality reports with respect to the Bank and each subsidiary within 45 days after the end of each quarter.

This line of credit is secured by a pledge of the stock of the Bank. The debt relating to the Company's credit facility is classified as a component of FHLB advances and other borrowings in our Consolidated Balance Sheets.

As of December 31, 2007, the Company was in violation of the rolling four quarter net profit and non-performing loan covenants under this line of credit.

As of January 31, 2008, we entered into a new agreement that amended and restated in its entirety the \$60.0 million line of credit. Under this new agreement, the \$60.0 million line of credit was converted to a \$49.4 million term note which constituted the current principal balance outstanding on the date of the agreement. The maturity date of the note was amended to be May 31, 2008 and the interest rate is the one month LIBOR plus 3.25%. This note continues to be secured by a pledge of the stock of the Bank.

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The Company is required to make principal payments of \$1.4 million by March 31, 2008 and \$3.0 million by April 30, 2008 and is required to make additional prepayments upon (a) the occurrence of a change in control of the Company or Bank which results in any change in ownership of 25% or more of the common or other stock of the Company; or (b) the Company ceasing to own 100% of the capital stock of the Bank. Additionally, the Company is required to make prepayments upon receipt of any excess cash flow or dividends received by the Company from any subsidiary minus normal operating expenses of the Company and scheduled payments on the Company's existing indebtedness. The Company shall not permit the sale of all or substantially all of the assets, or any capital stock, of any other subsidiary.

The amended covenants include the following:

Bank and the Company must maintain well capitalized regulatory capital ratios, as required by federal regulators;

Company shall not merge into or consolidate with any other business enterprises, or another business enterprise shall not merge into the Company, without prior written consent of the lender. Company shall not acquire all or substantially all of the assets of any other business enterprises, or acquire all or substantially all of the capital stock of any other business enterprises, without prior written consent of lender;

an event of default shall occur if the Company and/or Bank become subject to a Memorandum of Understanding a Cease and Desist Order or other regulatory action that reflects any material adverse change in the safety and soundness of the Company and/or Bank;

the Company must provide prompt notice of the occurrence of any default or event of default under the credit agreement, any material adverse determination or development in any litigation, arbitration or governmental proceeding, or any event which would have or could be expected to have a material adverse effect on the Company or any subsidiary;

the Company shall maintain a demand deposit account balance in an amount not less than 2.0% of the outstanding principal amount owed under the credit agreement;

the Company shall not pay any dividends, or make any other distributions, to its shareholders;

the Company shall suspend any stock repurchase plan, and shall not repurchase any shares of stock of the Company from any shareholder; and

the Company and its subsidiaries shall not permit the creation of or existence of any lien or encumbrance on the capital stock, or any of the property or assets, of any subsidiary.

The Company is required to provide the lender with copies of (a) all quarterly Thrift Financial Reports of the Bank no later than the due date required by the Office of Thrift Supervision, (b) a balance sheet and related statements of income and retained earnings and cash flow within 120 days after the end of each fiscal year and 45 days after the end of each quarter, and (c) asset quality reports with respect to the Bank and each subsidiary within 45 days after the end of each quarter.



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**PFF BANCORP, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**(Continued)**

**(6) Derivative Hedging Activities**

On September 30, 2004, we entered into an interest rate swap with a financial institution in the notional amount of \$30.0 million for a period of five years. This interest rate swap was transacted concurrent with and for the purpose of hedging the cash outflows from \$30.0 million of variable rate junior subordinated debentures against increasing interest rates. The terms of the interest rate swap require us to pay a fixed rate of 6.08 percent and receive three month LIBOR plus 2.20 percent quarterly on dates which mirror those of the junior subordinated debentures through the termination of the interest rate swap on November 23, 2009. We recognize all derivatives on the balance sheet at fair value based on dealer quotes. At December 31, 2007, this interest rate swap had a fair value of \$(17,000) as compared to \$821,000 at December 31, 2006. The periodic net settlement of this swap decreased interest expense by \$118,000 and \$364,000 for the three and nine months ended December 31, 2007 compared to \$126,000 and \$330,000 for the three and nine months ended December 31, 2006.

On September 16, 2005, we entered into an interest rate swap with a financial institution in the notional amount of \$10.0 million for a period of five years. This interest rate swap was transacted concurrent with and for the purpose of hedging the cash outflows from a portion of an additional \$25.0 million of variable rate junior subordinated debentures against increasing interest rates. The terms of the interest rate swap require us to pay a fixed rate of 5.98 percent and receive three month LIBOR plus 1.52 percent quarterly on dates which mirror those of the junior subordinated debentures through the termination of the interest rate swap on November 23, 2010. At December 31, 2007, this interest rate swap had a fair value of \$(150,000) as compared to \$137,000 at December 31, 2006. The periodic net settlement of this swap decreased interest expense by \$25,000 and \$77,000 for the three and nine months ended December 31, 2007 compared to \$27,000 and \$65,000 for the comparable periods of 2006.

Hedge accounting is not applied and the change in fair value of both of these swaps is recorded in the Statement of Earnings (Loss).

**(7) Allowance For Loan And Lease Losses**

At December 31, 2007, the allowance for loan and lease losses ( ALLL ) was \$72.8 million or 1.81% of net loans and leases (loans and leases receivable, net plus allowance for loan and lease losses) compared to \$46.3 million or 1.11% of net loans and leases at March 31, 2007. At December 31, 2007, approximately \$52.7 million of our total ALLL is assigned to our construction and land loan portfolio. As a percentage of committed and disbursed balances on construction and land loans, this represents 3.4 percent and 4.3 percent, respectively. The ALLL is maintained at an amount management considers adequate to cover probable losses on loans and leases receivable. The determination of the adequacy of the ALLL is influenced to a significant degree by the evaluation of the loan and lease portfolio by our internal asset review ( IAR ) function. The IAR system is designed to promptly identify problem loans and leases and probable losses. As the percentage of our loan and lease portfolio comprised by the construction, commercial business, commercial real estate and consumer loans (the Four-Cs ) has

## PFF BANCORP, INC. AND SUBSIDIARIES

## Notes to Unaudited Consolidated Financial Statements

(Continued)

increased, the IAR function has become increasingly important not only for the timely and accurate identification of probable losses, but also to minimize our exposure to such losses through early intervention. Among the factors taken into account by the IAR function in identifying probable losses and determining the adequacy of the ALLL are the nature, level and severity of classified assets, historical loss experience adjusted for current economic conditions, and composition of the loan and lease portfolio by type. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's ALLL. Such agencies may require the Bank to make additional provisions for loan and lease losses based upon information available at the time of the review. We will continue to monitor and modify our ALLL as economic conditions, loss experience, changes in asset quality, portfolio composition and other factors dictate.

The following table sets forth activity in our ALLL.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(Dollars in thousands)			
Beginning balance	\$ 94,391	\$ 40,289	\$ 46,315	\$ 37,126
Provision for loan and lease losses	35,000	1,900	90,800	4,920
Charge-offs	(56,553)	(152)	(64,370)	(260)
Recoveries	7	69	100	320
Ending balance	\$ 72,845	\$ 42,106	\$ 72,845	\$ 42,106

The \$56.6 million of charge-offs during the three months ended December 31, 2007 included \$30.0 million of specific valuation allowances established in previous quarters, which the Bank considers not collectible. The composition of the charge-offs during the three months ended December 31, 2007 was as follows: (i) first trust deeds secured by residential construction and land of \$40.9 million; (ii) one-to-four family residential properties of \$3.3 million; (iii) commercial business loans of \$11.8 million; and (iv) consumer loans of \$575,000. The one-to-four family residential and commercial business loan charge-offs were attributable principally to the single borrower relationship described in our September 30, 2007 Quarterly Report on Form 10-Q.

During the three months ended December 31, 2007, 8 construction and land loans with aggregate principal balances totaling \$37.9 million were restructured in order to maximize the recovery of our investment in these properties. These restructures resulted in charge-offs of \$3.1 million. One of these loans totaling \$9.7 million was restored to accrual status through restructure. The remainder of the loans will be restored to accrual status after the passage of a sufficient period of time (generally six months) to provide evidence of performance under the new terms. Subsequent to December 31, 2007, an additional 12 loans with aggregate principal balances totaling \$58.6 million have been restructured. Charge-offs of \$20.5 million attributable to these post December 31, 2007, restructures are included in the \$56.6 million of total charge-offs recorded for the quarter ended December 31, 2007. In 19 of the 20 restructures prior or subsequent to December 31, 2007, the existing or new borrowers contributed additional cash to the projects in the form of principal paydowns, past due interest payments, deposits to interest reserves and/or development costs. During the quarter ended December 31, 2007, we foreclosed on one single family loan of \$563,000, and recorded a \$17,000 loan charge-off, upon classification to assets acquired through foreclosure.

**(8) Non-Accrual Loans**

Non-accrual loans were \$235.2 million or 5.84 percent of net loans and leases (loans and leases receivable, net plus allowance for loan and lease losses) at December 31, 2007 compared to \$11.4 million or 0.27 percent of net loans and leases at March 31, 2007 and \$1.5 million or 0.04 percent of net loans and leases at December 31, 2006.

During the three months ended December 31, 2007, 61 loans totaling \$76.6 million were placed on non-accrual, 10 loans totaling \$12.6 million were restored to accrual status and charge-offs against non-accrual loans totaled \$55.0 million. Included in non-accrual loans at December 31,

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2007 are \$44.0 million in loans that are current or less than ninety days past due, but are exhibiting weaknesses in the underlying collateral or borrower strength.

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**PFF BANCORP, INC. AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**(Continued)**

**(9) Income Taxes**

On April 1, 2007, we adopted the provisions of FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 . FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of our adoption of FIN 48, we had no cumulative effect adjustment. In addition, we do not have any unrecognized tax benefits as a result of uncertainty in income taxes in our Consolidated Balance Sheets as of April 1, 2007 and December 31, 2007, and we do not anticipate any changes in the amount of unrecognized tax benefits prior to our fiscal year-end.

We file income tax returns with U.S. Federal and State of California jurisdictions. It is our policy to record any penalties or interest arising from federal or state taxes as a component of income tax expense. There were no penalties related to income taxes included in the Consolidated Statements of Earnings (Loss), but we had a reduction of interest expense of \$314,000 and \$458,000 for the three and nine months ended December 31, 2007, respectively. Upon adoption of FIN 48, we included interest payable of \$197,000 in the Consolidated Balance Sheet as of April 1, 2007. Included in the Consolidated Balance Sheet as of December 31, 2007 is interest receivable of \$261,000 related to amended income tax returns.

During our fiscal 3rd quarter, the Internal Revenue Service concluded their examination of our tax years ended March 31, 2002 through 2004. Accordingly, tax years ended on or after March 31, 2005 remain open to examination by federal authorities. Tax years ending March 31, 2002, and thereafter remain open to examination by state authorities.

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description</b>
15.1	Awareness Letter of KPMG LLP.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

**PFF BANCORP, INC. AND SUBSIDIARIES**

**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.

PFF BANCORP, INC.

DATED: April 10, 2008

BY: /s/ KEVIN MCCARTHY  
Kevin McCarthy  
President and Chief Executive Officer  
**(Principal Executive Officer)**

DATED: April 10, 2008

BY: /s/ GREGORY C. TALBOTT  
Gregory C. Talbott  
Senior Executive Vice President,  
Chief Operating Officer/Chief Financial Officer  
and Treasurer  
**(Principal Financial Officer)**