

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
SEC Accession No. **0001104659-04-024055**

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FILER

COAST BANCORP/CA

CIK: **1141575** | IRS No.: **770567091**
Type: **10QSB** | Act: **34** | File No.: **000-32827** | Film No.: **04969605**
SIC: **6021** National commercial banks

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FORM 10-QSB
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20429

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

Commission File No. 000-32827

COAST BANCORP

(Exact name of Registration as Specified in its Charter)

California
(State of incorporation or organization)

77-0567091
(IRS Employer Identification No.)

500 Marsh Street, San Luis Obispo, CA 93401
(Address of principal executive offices)

(805) 541-0400
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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:

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common Stock - As of June 30, 2004, there were 640,200 shares of the issuer's common stock outstanding.

Transitional Small Business Disclosure Format (Check one) Yes: No:

FORWARD LOOKING STATEMENTS

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-QSB INCLUDE 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 ARE SUBJECT TO THE “SAFE HARBOR” CREATED BY THOSE SECTIONS. THESE FORWARD-LOOKING STATEMENTS INVOLVE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE IN THE FORWARD-LOOKING STATEMENTS. SUCH RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, THE FOLLOWING FACTORS: COMPETITIVE PRESSURE IN THE BANKING INDUSTRY INCREASES SIGNIFICANTLY; CHANGES IN THE INTEREST RATE ENVIRONMENT REDUCE MARGINS; GENERAL ECONOMIC CONDITIONS, EITHER NATIONALLY OR REGIONALLY, ARE LESS FAVORABLE THAN EXPECTED, RESULTING IN, AMONG OTHER THINGS A DETERIORATION IN CREDIT QUALITY AND AN INCREASE IN THE PROVISION FOR POSSIBLE LOAN LOSSES; CHANGES IN THE REGULATORY ENVIRONMENT; CHANGES IN BUSINESS CONDITIONS, PARTICULARLY IN SAN LUIS OBISPO COUNTY; VOLATILITY OF RATE SENSITIVE DEPOSITS; OPERATIONAL RISKS INCLUDING DATA PROCESSING SYSTEMS FAILURES OR FRAUD; ASSET/LIABILITY MATCHING RISKS AND LIQUIDITY RISKS; CHANGES IN THE SECURITIES MARKETS; AND RISKS ASSOCIATED WITH THE WAR ON TERRORISM AND IN IRAQ.

THEREFORE, THE INFORMATION CONTAINED IN THIS DOCUMENT SHOULD BE CAREFULLY CONSIDERED WHEN EVALUATING THE BUSINESS PROSPECTS OF THE BANCORP.

MOREOVER, WHEREVER PHRASES ARE USED SUCH AS OR SIMILAR TO, “IN MANAGEMENT’ S OPINION,” “MANAGEMENT BELIEVES,” OR “MANAGEMENT CONSIDERS”, 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.

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COAST BANCORP & SUBSIDIARIES

ITEM I - FINANCIAL STATEMENTS

Consolidated Balance Sheet (Unaudited)
(in thousands)

	<u>June 30,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
ASSETS		
Cash and due from banks	\$ 9,753	\$ 9,273
Federal funds sold	15,150	5,400
TOTAL CASH AND CASH EQUIVALENTS	24,903	14,673
Interest-bearing deposits	-	-
Investment securities:		
Securities held to maturity	-	-
Securities available for sale	7,878	12,073
TOTAL INVESTMENT SECURITIES	7,878	12,073
Loans:		
Commercial	29,588	28,244
Real estate - construction	14,120	13,501
Real estate - other	65,262	62,282
Consumer	3,929	3,849
TOTAL LOANS	112,899	107,876
Net deferred loan fees	(375)	(414)
Allowance for credit losses	(1,177)	(1,109)
NET LOANS	111,347	106,353
Premises and equipment	7,722	7,091

Deferred taxes	558	367
Federal Reserve Bank and FHLB stock, at cost	872	415
Accrued interest and other assets	1,500	1,312
TOTAL ASSETS	\$ 154,780	\$ 142,284

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:		
Noninterest-bearing demand	\$ 36,419	\$ 34,636
Money market and NOW	36,665	35,754
Savings	7,182	7,015
Time deposits of \$100,000 or more	42,055	32,412
Other time deposits	17,551	18,206
TOTAL DEPOSITS	139,872	128,023
Notes payable	115	164
Junior subordinated debt securities	5,155	5,155
Other liabilities	258	129
TOTAL LIABILITIES	145,400	133,471
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock - 10,000,000 authorized, none outstanding		
Common stock no par value; 10,000,000 shares authorized; issued and outstanding: 640,200 in 2004 and 638,300 in 2003	6,435	6,407
Additional paid-in capital		
Retained earnings	3,005	2,375
Accumulated other comprehensive income - net unrealized gains (losses) on available-for-sale securities	(60)	31
TOTAL STOCKHOLDERS' EQUITY	9,380	8,813
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 154,780	\$ 142,284

The accompanying notes are an integral part of these consolidated financial statements

COAST BANCORP & SUBSIDIARIES

Statement of Operations (unaudited)
(In Thousands, except for per share numbers)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Interest income:				
Interest and fees on loans	\$ 1,992	\$ 1,793	\$ 3,865	3,437
Interest on taxable securities	42	20	91	39
Interest on federal funds sold	16	42	31	90
Other interest income	7	9	16	14
Total interest income	2,057	1,864	4,003	3,580

Interest expense:

Interest on money market and NOW accounts	58	64	115	132
Interest on savings deposits	12	14	25	26
Interest on time deposits	281	297	542	580
Interest on other borrowings	64	77	136	154
Total interest expense	415	452	818	892
Net interest income	1,642	1,412	3,185	2,688
Provision for loan losses	30	145	70	154
Net interest income after provision for loan losses	1,612	1,267	3,115	2,534
Noninterest income:				
Service charges on deposit accounts and other	139	140	208	224
Gain on sale of loans and servicing fees	256	254	531	279
Gain on sale of securities	0	0	43	0
Total noninterest income	395	394	782	503
Noninterest expense:				
Salaries and benefits	763	643	1,549	1,274
Net occupancy expense (net of rental income)	85	90	163	185
Equipment expense	69	65	132	130
Other expense	473	377	1,003	740
Total noninterest expense	1,390	1,175	2,847	2,329
Income before taxes	617	486	1,050	708
Income taxes	245	203	420	295
Net income	\$ 372	\$ 283	\$ 630	\$ 413
Earnings per share - Basic	\$ 0.58	\$ 0.45	\$ 0.99	\$ 0.65
Earnings per share - Diluted	\$ 0.53	\$ 0.43	\$ 0.89	\$ 0.62

The accompanying notes are an integral part of these consolidated financial statements

COAST BANCORP & SUBSIDIARIES

Statement of changes in Stockholders' Equity (In Thousands, Except Number of Shares) (Unaudited)

	Common Stock		Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Total
	Number of Shares	Amount				
Balance at January 1, 2003	632,400	\$ 6,324		\$ 1,456	\$ 49	\$ 7,829
Exercise of stock options	5,900	83				83

Cash dividends			(63)		(63)
Comprehensive Income					
Net income	\$	982	982		982
Unrealized gain on available-for-sale securities, net of taxes of \$2,414		(3)		(3)	
Less reclassification adjustments for gains included in net income, net of taxes of \$10,328		(15)		(15)	(15)
Total comprehensive income	\$	964			
Balance at December 31, 2003	638,300	\$ 6,407	\$ 2,375	\$ 31	\$ 8,813
Exercise of stock options	1,900	28			28
Cash dividends					-
Comprehensive Income					
Net income	\$	630	630		630
Unrealized loss on available-for-sale securities, net of taxes		(91)		(91)	(91)
Total comprehensive income	\$	539			
Balance at June 30, 2004	640,200	\$ 6,435	\$ 3,005	\$ (60)	\$ 9,380

The accompanying notes are an integral part of these consolidated financial statements

COAST BANCORP & SUBSIDIARIES

Statement of Cash Flows (unaudited) (In Thousands)

	For the Six Months Ended	
	June 30,	
	2004	2003
Operating activities		
Net income	\$ 630	\$ 413
Adjustments to reconcile net income to Net cash provided by operating activities:		
Depreciation and amortization	198	177
Provision for loan losses	70	154
Realized gain on investment securities	(43)	-
Other items - net	(180)	(117)
Net cash provided by operating activities	675	627
Investing activities		
Proceeds from sale of investment securities	5,094	-
Maturities of investment securities	1,000	-
Purchase of investment securities	(2,019)	-
Net change in loans	(5,064)	(14,979)
Increase in Federal Reserve Bank and FHLB Stock	(455)	(125)

Purchase of premises and equipment	(829)	(938)
Net cash provided (used) by investing activities	(2,273)	(16,042)
Financing activities		
Increase (decrease) in deposits	11,849	11,696
Principle payments on notes payable	(49)	(48)
Proceeds from exercise of options	28	13
Net cash provided (used) by financing activities	11,828	11,661
Increase (decrease) in cash and cash equivalents	10,230	(3,754)
Cash and cash equivalents at beginning of period	14,673	23,212
Cash and cash equivalents at end of period	\$ 24,903	\$ 19,458

The accompanying notes are an integral part of these consolidated financial statements

Note 1 Basis of Presentation

The accompanying financial information has been prepared in accordance with the Securities and Exchange Commission rules and regulations for quarterly reporting and therefore does not necessarily include all information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles. This information should be read in conjunction with the Company's Annual Report for the year ended December 31, 2003 filed on Form 10-KSB.

Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. In the opinion of management, the unaudited financial information for the three month and six month period ended June 30, 2004 and 2003 reflect all adjustments, consisting only of normal recurring accruals and provisions, necessary for a fair presentation.

Some matters discussed in this Form 10-QSB may be "forward-looking statements" within the meaning of the Private Litigation Reform Act of 1995 and therefore may involve risks, uncertainties and other factors which may cause our actual results to be materially different from the results expressed or implied by our forward-looking statements. These statements generally appear with words such as "anticipate", "believe", "estimate", "may", "intend", and "expect".

Note 2 Earnings Per Share

Effective December 31, 1997, the Bank adopted SFAS No. 128, "Earnings per Share". Accordingly, basic earnings per share are computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share also considers the number of shares issuable upon the assumed exercise of outstanding common stock options. All earnings per common share amounts presented have been restated in accordance with the provisions of this statement.

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
	Shares	Shares	Shares	Shares
Used in Basic EPS	638,104	633,300	637,305	633,027
Dilutive Effect of Outstanding Stock Options	70,938	29,453	67,963	30,546
Earnings per share - Diluted	709,042	662,753	705,268	663,573

Note 3 **Stock-Based Compensation**

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

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Had compensation costs for the Company's stock option plan been determined based on the fair value at the grant dates for awards under this plan consistent with the method of SFAS No. 123, the Company's net income and earnings per share would have been reduced for 2004 and 2003 to the pro forma amounts indicated below:

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Net Income:				
As reported	\$ 372	\$ 283	\$ 630	\$ 413
Stock-based compensation using the intrinsic value method	—	—	—	—
Stock-Based compensation that would have been reported using the fair value method of SFAS 123	(10)	(10)	(20)	(23)
Pro Forma net income	<u>\$ 362</u>	<u>\$ 273</u>	<u>\$ 610</u>	<u>\$ 390</u>
Basic earnings per share:				
As reported	\$ 0.58	\$ 0.45	\$ 0.99	\$ 0.65
Proforma	\$ 0.57	\$ 0.43	\$ 0.96	\$ 0.62
Diluted earnings per share:				
As reported	\$ 0.53	\$ 0.43	\$ 0.89	\$ 0.62
Pro forma	\$ 0.51	\$ 0.41	\$ 0.86	\$ 0.59

Note 4 **Current Accounting Pronouncements**

In December 2003, FASB issued FASB Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No 51." This interpretation addresses the consolidation of variable interest entities as defined in the Interpretations. This Interpretation will require companies that have issued trust preferred securities to deconsolidate the related entities. The Company has deconsolidated the Coast Bancorp Statutory Trust I, which did not have a material impact on the Company's financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The unaudited financial statements have been prepared in accordance with the instructions to form 10-QSB and contain statements relating to future results of the Company that are considered to be "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, credit loss reserve adequacy, and simulation of changes in interest rates. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to, changes in political and economic conditions, interest rate fluctuations, competitive product and pricing pressures within the

Company's markets, equity and fixed income market fluctuations, personal and corporate customers' bankruptcies, inflation, acquisitions and integrations of acquired businesses, technological change, changes in law, changes in fiscal, monetary, regulatory and tax policies, monetary fluctuations, political and global changes arising from the terrorist attacks of September 11, 2001 as well as the war in Iraq and its aftermath, success in gaining regulatory approvals when required as well as other risks and uncertainties detailed elsewhere in this quarterly report or from time to time in the filings of the Company with the Securities Exchange Commission. Such forward-looking statements speak only as of the date on which such statements are made, and the corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. The accompanying financial information should be read in conjunction with Coast Bancorp's Annual Report on Form 10-KSB for the year ended December 31, 2003.

Description of Business

Coast Bancorp

Coast Bancorp, (the "Bancorp" or "Coast Bancorp") headquartered in San Luis Obispo, California, is a California corporation incorporated in 2001. Coast Bancorp became the bank holding company of Coast National Bank on May 31, 2001 through a corporate reorganization. In the reorganization, Coast National Bank became the wholly-owned subsidiary of Coast Bancorp and the shareholders of the Bank became shareholders of Coast Bancorp. Coast Bancorp is operated through a two-tiered corporate structure. At the holding company level the affairs of Coast Bancorp are overseen by a Board of Directors elected by the shareholders of Coast Bancorp at the annual meeting of shareholders. The business of the Bank is overseen by a Board of Directors elected by Coast Bancorp, the sole owner of the Bank. As of the date of this Form 10-QSB the respective members of the Board of Directors of the Bank and the Board of

Directors of Coast Bancorp are identical. Coast Bancorp is subject to the regulations of, and examination by, the Board of Governors of the Federal Reserve System. At present, Coast Bancorp does not engage in any material business activities other than the ownership of the Bank. Financial information presented herein for June 30, 2004 and comparative information for December 31, 2003 and June 30, 2003 is inclusive of the consolidated Company.

Coast National Bank

Coast National Bank (the "Bank") was chartered June 16, 1997 (charter #23222) by The Office of the Comptroller of the Currency as a national bank. The Bank commenced operations on that date with two offices, 16 employees and \$6,250,000 in capital. The original branch offices were located at 486 Marsh Street, San Luis Obispo and 1199 Grand Avenue, Arroyo Grande, California. Since that time, an additional branch office was opened in June 1998 at 948 Morro Bay Boulevard in Morro Bay, California and another branch office was opened in July 1999 at 1193 Los Osos Valley Road in Los Osos, California. In July 2002, a loan production office was opened at 930 South Broadway Street in Santa Maria, California. In May 2003 the Bank opened another loan production office in Bakersfield, California.

When the Bank opened for business in June 1997, it purchased the real estate and building that housed the Arroyo Grande branch office. On October 14, 1999, the Bank purchased an adjacent lot next to the San Luis Obispo main office on Marsh Street. A few months later on February 1, 2000, the Bank also purchased the contiguous property and building that was home to the San Luis Obispo main office at 486 Marsh Street. Construction of a new head office building on the adjacent lot began on October 11, 2001 and was completed on November 25, 2002. The new main office, located at 500 Marsh Street is approximately 10,700 square feet with the San Luis Obispo branch operation occupying the ground floor and the administrative offices occupying the second floor. The original main office at 486 Marsh Street now houses the Bank's Small Business Lending Center and the Bank's Note Department.

On March 29, 2002, the Bank purchased a vacant site on Morro Bay Boulevard in Morro Bay that is approximately one block from the existing branch. The purpose for this acquisition was the construction and relocation of the Morro Bay branch to a larger facility with a drive-through lane. Construction began in the first quarter of 2004 with completion anticipated in the third quarter 2004.

As of June 30, 2004, the Bank had a total of 65 employees. A number of these employees are part-time however. Part-time employees are converted to full-time equivalent employees on the percentage of their weekly hours worked compared to 40 hours. On a full-time equivalent basis, employees represent 60 positions. The Bank values its employees and believes that it enjoys satisfactory working relations with them. They are actively engaged individually and as a team in contributing to the Bank's realization of its vision and mission.

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported. In preparing its consolidated financial statements, the Company is required to make judgments and estimates that may have a significant impact upon its financial results. Certain accounting policies require the Company to make significant estimates and assumptions, which have a material impact on the carrying value of certain assets and liabilities, and are considered critical accounting policies. The estimates and assumptions used are based on the historical experiences and other factors, which are believed to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and results of operations for the reporting periods. For example, the Company's determination of the adequacy of its allowance for loan losses is particularly susceptible to management's judgment and estimates. 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 allowance for loan losses is determined based on management's assessment of several factors: reviews and evaluation of individual 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 and the levels of classified and nonperforming loans.

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.

Available for Sale Securities

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

Overview

As of June 30, 2004, total consolidated assets of Coast Bancorp were \$154.7 million in comparison to total assets of \$142.2 million as of December 31, 2003. This represents an increase of \$12.5 million, or 8.8%. Compared to total assets of \$133.6 million at June 30, 2003, the company has increased assets by \$21.1 million, or 15.8%, over the last twelve months.

For the three months ended June 30, 2004 the Bancorp reported consolidated net income of \$372,000 or \$0.53 diluted earnings per share compared to net income of \$283,000 and \$0.43 diluted earnings per share for the same period during 2003. For the six months ended June 30, 2004 the Bancorp reported consolidated net income of \$630,000 or \$0.89 diluted earnings per share compared to consolidated net income of \$413,000 or \$0.62 diluted earnings per share for the same period in 2003. The increase in net income was due in part to loan growth and to the sale of the government guaranteed portion of SBA loans.

Net Interest Income

Net interest income is the amount by which the interest and amortization of fees generated from loans and other earning assets exceed the cost of funding those assets, usually deposit account interest expense. Net interest income depends on the difference between gross interest and fees earned on the loans and investment portfolios and the interest rates paid on deposits and borrowings (“the interest rate spread”). Net interest income was \$1,642,000 for the quarter ended June 30, 2004, compared to \$1,412,000 for the quarter ended June 30, 2003, representing an increase of 16.3%. Net interest income was \$3,185,000 for the six months ended June 30, 2004, compared to \$2,688,000 for the six months ended June 30, 2003, representing an increase of 18.5%. This increase, while offset somewhat by lower interest rates, was primarily the result of the loan growth generated by the Bank’s branches.

The following table sets forth the components of net interest income, average earning assets and net interest margin: (in thousands)

	Three Months Ended		Six Months Ended		Year Ended
	June 30,		June 30,		December 31,
	2004	2003	2004	2003	2003
Interest Income	\$ 2,057	\$ 1,864	\$ 4,003	\$ 3,580	\$ 7,444
Interest Expense	415	452	818	892	1,413
Net Interest Income	\$ 1,642	\$ 1,412	\$ 3,185	\$ 2,688	\$ 6,031
Average Earning Assets	\$ 133,706	\$ 118,374	\$ 131,260	\$ 114,619	\$ 120,807
Net Interest Margin	4.91%	4.77%	4.85%	4.69%	4.99%

Provision for Loan Losses

Management of the Bank and the Bancorp believes that the allowance for loan losses is adequate. The Bank has established a monitoring system for loans in order to identify impaired loans and potential problem loans and to permit periodic evaluation of impairment and adequacy of the allowance for loan losses in a timely manner. The monitoring system and allowance for loan losses methodology have evolved over a period of years, and loan classifications have been incorporated into the determination of the allowance for loan losses. This monitoring system and allowance methodology includes a loan-by-loan analysis for all classified loans as well as loss factors for the balance of the unclassified portfolio. Classified loans are reviewed individually to estimate the amount of probable

losses that needs to be included in the allowance. These reviews include analysis of financial information as well as evaluation of collateral securing the credit. Loss factors on the unclassified portion of the portfolio are based on such factors as historical loss experience, current portfolio delinquency and trends, and other inherent risk factors such as economic conditions, concentrations in the portfolio, risk levels of particular loan categories, internal loan review and management oversight.

The Company made a \$70,000 contribution to the allowance for loan losses for the six months ended June 30, 2004 compared to \$154,000 for the same period in 2003. Management believes that the allowance, which equals 1.04% of total loans at June 30, 2004, is adequate to cover future losses. The allowance for loan losses at December 31, 2003 was 1.03% of total loans.

Changes in the allowance for loan losses for the three months ended and the six months ended June 30, 2004 and 2003 are as follows (dollar amounts in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Allowance, Beginning of Period	\$ 1,146	\$ 1,010	\$ 1,109	\$ 1,000
Provision for Loan Losses	30	145	70	155
Loans Charged Off - net of recoveries	1	(105)	(2)	(105)
Allowance, End of Period	<u>\$ 1,177</u>	<u>\$ 1,050</u>	<u>\$ 1,177</u>	<u>\$ 1,050</u>

Non-interest Income

Non-interest income represents deposit account service charges and other types of fee income. Non-interest income for the three months ended June 30, 2004 totaled \$395,000 compared to \$394,000 for the same period in 2003 a slight increase. Non-interest income for the six months ended June 30, 2004 totaled \$782,000 compared to \$503,000 for the same period in 2003 a 55.4% increase. During the six months ended June 30, 2004, the Bank elected to realize gains of \$483,000 from the sale of the guaranteed portion of government guaranteed loans as compared to \$236,000 for the six months ending 2003. It has been the Company's policy to sell securities due in one year if the gain will result in higher income after reinvesting the proceeds. There were no sales for the three months ending June 30, 2004. For the six months ending June 30, 2004 gains on these sales were \$43,000 resulting in an increase of 59 basis points on the portion reinvested.

Non-interest Expense

Non-interest expense represents salaries, occupancy expenses, professional expenses, outside services and other miscellaneous expenses necessary to conduct business. Noninterest expense for the three months ended June 30, 2004 totaled \$1,390,000 compared to \$1,175,000 for the same period in 2003 for an increase of 18.3%. Non-interest expense for the six months ended June 30, 2004 totaled \$2,847,000 compared to \$2,329,000 for the same period in 2003 for an increase of 22.2%. This increase is primarily due to the continuing growth of the Bank's government guaranteed lending department specializing in Small Business Administration lending programs, the increased expense associated with the Bank's new head office building, and the overall expansion of the Bank's customer base. The number of full time equivalent employees necessary to provide superior customer service was 60 in June 2004 compared to 53 in June 2003.

Income Taxes

The Company recorded a \$245,000 tax provision during the three months ended June 30, 2004 compared to \$203,000 during the same period in 2003. The Company recorded a \$420,000 tax provision for the six months ended June 30, 2004 compared to \$295,000 during the same period in 2003.

Financial Condition

Balance Sheet Summary

As of June 30, 2004, total consolidated assets of Coast Bancorp were \$154.7 million in comparison to total assets of \$142.2 million as of December 31, 2003. This represents an increase of \$12.5 million, or 8.8%. Compared to total assets of \$133.6 million at June 30, 2003, the company has increased assets by \$21.1 million, or 15.8%, over the last twelve months. These increases are the result of significant growth in deposits of all types.

The majority of the growth in deposits has been invested in loans, which have increased by \$8.3 million, or 7.9%, from \$104.6 million at June 30, 2003 to \$112.9 million at June 30, 2004. The balance of the deposit growth has been invested in Fed Funds to fund continuing strong loan demand and to meet the ongoing liquidity needs of the Bank.

Earnings Summary

Consolidated net income for the three months ended June 30, 2004 was \$372,000 or \$0.53 diluted earnings per share compared to net income of \$283,000 or \$0.43 diluted earnings per share for the same period during 2003. Consolidated net income for the six months ended June 30, 2004 was \$630,000 or \$0.89 diluted earnings per share compared to net income of \$413,000 or \$0.62 diluted earnings per share for the same period during 2003. The increase in earnings in 2004 as compared to the same three and six-month period in 2003 was still attained in the face of the lingering effects on the Bank's net interest margin following reductions in short-term rates by the Federal Reserve of 50 basis points on November 7, 2002 and another 25 basis points on June 25, 2003, as well as increases in non-interest expenses such as those associated with the opening of the Bank's new head office building as well as the continuing expansion of the Bank's Government Guaranteed lending department, and the payment of quarterly interest on the Company's Trust Preferred borrowing. The increase in short term rates of 25 basis points recently instituted by the Federal Reserve has not had an effect as of this date.

Asset Quality

As of June 30, 2004, the Company had no loans on non-accrual and no loans 90 days or more past due and still accruing. As of June 30, 2003 the Company had one loan in the amount \$54,000 on nonaccrual and no loans 90 day past due and still accruing. As of December 31, 2003 the company had no loans on non-accrual or loans 90 days past due and still accruing. As of June 30, the Company has had no OREO during 2004 or 2003.

Capital

The objective of the Company's asset/liability strategy is to manage liquidity and interest rate risk. Ultimately, management seeks to monitor the safety and soundness of the Bank and its capital base, while maintaining adequate net interest margins and spreads to provide an appropriate return to the stockholders.

Stockholders equity at June 30, 2004 was \$9.380 million, compared to \$8.813 million at December 31, 2003. Stockholders equity increased primarily from net income of \$630,000.

The Company is required to meet certain minimum risk-based capital guidelines and leverage ratios set by the bank regulatory authorities. The risk-based capital standards establish capital requirements that are more sensitive to risk differences between various assets, consider off balance sheet activities in assessing capital adequacy, and minimize the disincentives to holding liquid, low risk assets. The leverage ratio consists of tangible Tier I capital divided by average total assets.

The Company maintains capital ratios above the Federal regulatory guidelines for "well-capitalized" bank holding companies. The ratios for the Bank are as follows:

	Regulatory Standard		Coast	Coast
	Adequately	Well	National Bank	National Bank
	Capitalized	Capitalized	As of June 30, 2004	As of December 31, 2003
Total risk-based capital ratio	8.00%	10.00%	12.44%	12.51%
Tier 1 risk-based capital ratio	4.00%	6.00%	11.47%	11.54%
Tier 1 leverage capital ratio	4.00%	5.00%	9.29%	9.49%

Liquidity

The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors, investors and borrowers. Asset liquidity is primarily derived from loan payments and the maturity of other earning assets. Liquidity from liabilities is obtained primarily from the receipt of new deposits. The Bank's Investment Committee is responsible for the managing of the on- and off-balance sheet commitments to meet the needs of customers while achieving the Bank's financial objectives.

Management is not aware of any future capital expenditures or other significant demands on commitments which would severely impair liquidity. As of the six months ended June 30, 2004, the Bank had a loan-to-deposit ratio of 80.72%.

Item 3. Controls and Procedures

Based on their evaluation as of June 30, 2004, the Bancorp's Chief Executive Officer and Chief Financial Officer have concluded that the Bancorp's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Bancorp files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in the Bancorp's internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Not applicable.

ITEM 2 - CHANGES IN SECURITIES

Not applicable.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

- (a) Coast Bancorp's 2004 Annual Meeting of Shareholders was held on June 23, 2004 (the "Meeting"). The Meeting involved the following proposals:
1. To elect nine (9) persons to the Board of Directors to serve until the next Annual Meeting of Shareholders and until their successors are elected and have qualified.
 2. To approve the appointment of Vavrinek, Trine, Day & Co. LLP as independent public accountants for the Company's 2004 fiscal year, and
- (b) Proxies for the meeting were solicited pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended. There were no solicitations in opposition to management's nominees as listed in the proxy statement, and all such nominees were elected.

On Proposal No. 2 to approve the appointment of Vavrinek, Trine, Day & Co. LLP as independent public accountants for the Company's 2004 fiscal year, 500,922 shares voted in favor of approval, none voted against approval, 750 shares abstained, and there were zero (0) broker non-votes. Accordingly, Proposal No. 2 was passed by the shareholders.

- (c) There was no settlement between the Company and any other person terminating any solicitation subject to Rule 14a-11.

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Exhibit 31 - RULE 13a-14(a) CERTIFICATIONS

- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer

Exhibit 32 - SECTION 1350 CERTIFICATIONS

- 32.1 Certification of Chief Executive Officer
- 32.2 Certification of Chief Financial Officer

(b) Reports on Form 8-K

No Form 8-K's were filed by the Bank during the quarter ended June 30, 2004.

Signatures

In accordance with the requirements of the Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COAST BANCORP

Date: August 11, 2004

/s/ Jack C. Wauchope

Jack C. Wauchope
Chairman of the Board
President/Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2004

/s/ Berta F. Olson

Berta F. Olson
Senior Vice President
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Jack C. Wauchope, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Coast Bancorp;
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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) 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)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, 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) [Paragraph reserved pursuant to SEC Release 33-8238]
 - (c) Evaluated the effectiveness of the small business issuer'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 small business issuer's internal control over financial reporting that occurred during small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer'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 small business issuer'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 small business issuer's internal controls over financial reporting.

Date: August 11, 2004

/s/ Jack C. Wauchope

Jack C. Wauchope

President/Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Berta F. Olson, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Coast Bancorp;
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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) 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)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedure, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, 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) [Paragraph reserved pursuant to SEC Release 33-8238]
 - (c) Evaluated the effectiveness of the small business issuer'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 small business issuer's internal control over financial reporting that occurred during small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer'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 small business issuer'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 small business issuer's internal controls over financial reporting.

Date: August 11, 2004

/s/ Berta F. Olson

Berta F. Olson

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

The following certification accompanies the issuer's quarterly report on Form 10-QSB and is not filed, as provided in Release 33-8212. 34-47551 dated May 13, 2003.

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

In connection with the accompanying quarterly report on Form 10-QSB of Coast Bancorp for the quarter ended June 30, 2003, I, Jack C. Wauchope, Chief Executive Officer of Coast Bancorp, 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 quarterly report on Form 10-QSB of Coast Bancorp for the quarter ended June 30, 2003, 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 quarterly report on Form 10-QSB of Coast Bancorp for the quarter ended June 30, 2003, fairly presents, in all material respects, the financial condition and results of operations of Coast Bancorp.

A signed original of this written statement required by Section 906 has been provided to Coast Bancorp and will be retained by Coast Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: August 11, 2004

/s/ Jack C. Wauchope

Jack C. Wauchope
Chief Executive Officer
(Principal Executive Officer)

The following certification accompanies the issuer's quarterly report on Form 10-QSB and is not filed, as provided in Release 33-8212. 34-47551 dated May 13, 2003.

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

In connection with the accompanying quarterly report on Form 10-QSB of Coast Bancorp for the quarter ended June 30, 2003, I, Thomas J. Sherman, Chief Financial Officer of Coast Bancorp, 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 quarterly report on Form 10-QSB of Coast Bancorp for the quarter ended June 30, 2003, 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 quarterly report on Form 10-QSB of Coast Bancorp for the quarter ended June 30, 2003, fairly presents, in all material respects, the financial condition and results of operations of Coast Bancorp.

A signed original of this written statement required by Section 906 has been provided to Coast Bancorp and will be retained by Coast Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: August 11, 2004

/s/ Berta F. Olson

Berta F. Olson
Chief Financial Officer
(Principal Financial Officer)