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

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006 or

__TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to

000-50974

(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, Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	Nasdaq Capital Market

Securities registered pursuant to Section 12 (g) of the Act:

Title of each class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Bridge Capital Holdings (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 X No__.

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 [X] Non-accelerated filer [ ]

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

The aggregate market value of the voting stock held by non-affiliates of Bridge Capital Holdings was $95,314,418 as of June 30, 2006.

As of March 1, 2007, Bridge Capital Holdings had 6,368,224, shares of common stock outstanding.

Documents incorporated by reference: The Company's Proxy Statement for its 2007 Annual Meeting of Shareholders is incorporated herein by reference in Part III, Items 10 through 14.

Forward-looking Statements

IN ADDITION TO THE HISTORICAL INFORMATION, THIS ANNUAL 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 ANNUAL 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 MARGINS; (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; (10) THE INVOLVEMENT OF THE UNITED STATES IN WAR OR OTHER HOSTILITIES; AND (11) THE MATTERS DISCUSSED IN THIS REPORT UNDER "ITEM 1A – RISK FACTORS" AND "ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – CRITICAL ACCOUNTING POLICIES. THEREFORE, THE INFORMATION IN THIS ANNUAL REPORT SHOULD BE CAREFULLY CONSIDERED AGAINST THESE UNCERTAINTIES AND RISKS 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.

All of the Company's 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.

PART 1

Item 1. Business

General

On July 26, 2000 an Application to Obtain a National Banking Charter and Federal Deposit Insurance was filed with the Comptroller of the Currency (the "Comptroller") and with the Federal Deposit Insurance Corporation (the "FDIC"). The Comptroller approved the Application on November 17, 2000 and the FDIC approved the Bank's Application for Federal Deposit Insurance for Bridge Bank, National Association. On December 6, 2000, the Bank's Articles of Association and Organizers' Certificate were adopted by the Bank's organizers, which established the Bank's corporate existence. There are no predecessors to the Bank.

The Bank commenced operations on May 14, 2001. The Bank engages in general commercial banking business, and accepts checking and savings deposits, makes commercial, real estate, auto and other installment and term loans, and provides other customary banking services. The Bank attracts the majority of its loan and deposit business from the residents and numerous small and middle market businesses and professional firms located in Santa Clara County. Its headquarters office is located at 55 Almaden Boulevard, San Jose, California 95113.

In 2002, the Bank opened a full-service branch office in Palo Alto and established a U.S. Small Business Administration Lending Group that includes a regional loan production office in Sacramento county. Also, it launched Bridge Capital Finance Group, a factoring and asset-based lending division with a loan production office in Santa Clara. During the year ended December 31, 2003, the Bank opened an office in downtown San Jose and established a U.S. Small business Administration regional loan production office in San Diego county.

On October 1, 2004, Bridge Bank, National Association (the "Bank") announced completion of a bank holding company structure which was approved by shareholders at the Bank's annual shareholders' meeting held on May 20, 2004. The bank holding company, formed as a California corporation, is named Bridge Capital Holdings (the "Company"). Information in this report dated prior to September 30, 2004 is for Bridge Bank, National Association.

Bridge Capital Holdings was formed for the purpose of serving as the holding company for Bridge Bank, National Association and is supervised by the Board of Governors of the Federal Reserve System. Effective October 1, 2004, Bridge Capital Holdings acquired 100% of the voting shares of Bridge Bank, National Association. As a result of the transaction, the former shareholders of Bridge Bank, National Association received one share of common stock of Bridge Capital Holdings for every one share of common stock of Bridge Bank, National Association owned.

Prior to the share exchange, the common stock of the Bank had been registered with the Office of Comptroller of the Currency. As a result of the share exchange, common stock of Bridge Capital Holdings is now considered registered with the Securities and Exchange Commission. Future filings will be made with the SEC rather than the Office of the Comptroller of the Currency and will be available on the SEC's website, **http://www.sec.gov** as well as on the Company's website http://www.bridgebank.com.

The Bank provides the local business and professional community with banking services tailored to the unique needs of the Silicon Valley. The Bank does not offer trust services, but it will attempt to make such services available to the Bank's customers through correspondent institutions. The deposits of the Bank are insured by the FDIC, up to applicable limits, and the Bank is a member of the Federal Reserve System.

In addition, the Bank provides some specialized services to its customers. These services include courier deposit services to key locations or customers throughout the Bank's service area, Small Business Administration (SBA) loans, factoring and asset-based loans and Internet banking. The Bank reserves the right to change its business plan at any time and no assurance can be given that, if the Bank's proposed business plan is followed, it will prove successful.

At December 31, 2006, the Company had total assets of approximately $722.0 million, total gross loans of $540.8 million and total deposits of $645.0 million. At December 31, 2006, the Company had 134 full-time equivalent employees.

Deposits

The Bank offers a wide range of deposit accounts designed to attract small and medium size commercial businesses as well as business professionals and retail customers, including a complete line of checking and savings products, such as passbook savings, “Money Market Deposit” accounts which require minimum balances and frequency of withdrawal limitations, NOW accounts, and bundled accounts. Other accounts offered by the Bank include term certificates of deposit.

Other deposit services include a full complement of convenience oriented services, including direct payroll and social security deposit, post-paid bank-by-mail, and Internet banking, including on-line access to account information. However, at this time, the Bank does not open accounts through the Internet. Any plans to offer online account opening must be approved in advance by the Comptroller. No assurance can be given that, if applied for, such approval will be obtained.

As the Bank has no automated teller machines, the Bank may refund all or portion of transaction charges incurred by its customers for their use of another bank’s ATM. The majority of the Bank's deposits are obtained from businesses located in the Bank's primary service area.

Lending Activities

The Bank engages in a full range of lending products designed to meet the specialized needs of its customers, including commercial lines of credit and term loans, constructions loans, equipment loans, and mortgage loans. Additionally, the Bank extends accounts receivable, factoring and inventory financing to qualified customers. Loans are also offered through the Small Business Administration guarantee 7(a) and 504 loan programs (described below under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—FINANCIAL CONDITION AND EARNING ASSETS—Loan Portfolio”).

The Bank finances real estate construction projects, primarily for the construction of owner occupied and 1 to 4 unit residential developments and commercial buildings under $3 million in loan size.

The Bank directs its commercial lending principally toward businesses whose demands for credit fall within the Bank’s lending limit. In the event there are customers whose commercial loan demands exceed the Bank’s lending limits, the Bank seeks to arrange for such loans on a participation basis with other financial institutions.

The Bank also extends lines of credit to individual borrowers, and provides homeowner equity loans, home improvement loans, auto financing, credit and debit cards and overdraft/cash reserve accounts.

Business Hours

In order to attract loan and deposit business, the Bank maintains lobby hours currently between 9:00 a.m. and 5:00 p.m. Monday through Friday.

For additional information concerning the Bank, see Selected Financial Data under Item 6 on page 25.

Competition

The banking business in Santa Clara County, as it is elsewhere in California, is highly competitive, and each of the major branch banking institutions has one or more offices in the Bank's service area. The Bank competes in the marketplace for deposits and loans, principally against these banks, independent community banks, savings and loan associations, thrift and loan companies, credit unions, mortgage banking companies, and non-bank institutions such as mutual fund companies and investment brokerage firms that claim a portion of the market.

Larger banks may have a competitive advantage because of higher lending limits and major advertising and marketing campaigns. They also perform services, such as trust services, international banking, discount brokerage and insurance services, which the Bank is not authorized or prepared to offer currently. The Bank has made arrangements with its correspondent banks and with others to provide such services for its customers. For borrowers requiring loans in excess of the Bank's legal lending limit, the Bank has offered, and intends to offer in the future, such loans on a participating basis with its correspondent banks and with other independent banks, retaining the portion of such loans which is within its lending limit. As of December 31, 2006, the Bank's unsecured legal lending limit to a single borrower and such borrower's related parties was $10.7 million based on regulatory capital of $71.5 million. However, for risk management purposes, the Bank has established internal policies, which at present provide lending limits that are less than the Bank’s legal lending limit.

The Bank's business is concentrated in its service area, which primarily encompasses Santa Clara County, and also includes, to a lesser extent, the contiguous areas of Alameda, San Mateo and Santa Cruz counties. During 2002, the

Bank established an SBA loan production office in Sacramento county and during 2003, a SBA loan production office in San Diego county.

In order to compete with major financial institutions in its primary service area, the Bank uses to the fullest extent possible the flexibility that is accorded by its independent status. This includes an emphasis on specialized services, local promotional activity, and personal contacts by the Bank's officers, directors and employees. The Bank also seeks to provide special services and programs for individuals in its primary service area who are employed in the agricultural, professional and business fields, such as loans for equipment, furniture, and tools of the trade or expansion of practices or businesses.

Banking is a business that depends on interest rate differentials. In general, the difference between the interest rate paid by the Bank to obtain its deposits and its other borrowings and the interest rate received by the Bank on loans extended to its customers and on securities held in the Bank's portfolio comprises the major portion of the Bank's earnings.

Commercial banks compete with savings and loan associations, credit unions, other financial institutions and other entities for funds. For instance, yields on corporate and government debt securities and other commercial paper affect the ability of commercial banks to attract and hold deposits. Commercial banks also compete for loans with savings and loan associations, credit unions, consumer finance companies, mortgage companies and other lending institutions.

The interest rate differentials of the Bank, and therefore its earnings, are affected not only by general economic conditions, both domestic and foreign, but also by the monetary and fiscal policies of the United States as set by statutes and as implemented by federal agencies, particularly the Federal Reserve Board. This agency can and does implement national monetary policy, such as seeking to curb inflation and combat recession, by its open market operations in United States government securities, adjustments in the amount of interest free reserves that banks and other financial institutions are required to maintain, and adjustments to the discount rates applicable to borrowing by banks from the Federal Reserve Board. These activities influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits.

Supervision and Regulation

Bank Holding Company Act

The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended ("BHCA"). As a bank holding company, Bridge Capital Holdings is subject to examination by the Federal Reserve Board ("FRB"). Pursuant to the BHCA, the Company is also subject to limitations on the kinds of businesses in which it can engage directly or through subsidiaries. The Company may, of course, manage or control banks. Generally, however, the Company is prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than five percent of any class of voting shares of an entity engaged in non-banking activities, unless the FRB finds such activities to be "so closely related to banking" as to be deemed "a proper incident thereto" within the meaning of the BHCA. As a bank holding company, the Company may not acquire more than five percent of the voting shares of any domestic bank without the prior approval of (or, for "well managed" companies, prior written notice to) the FRB.

The BHCA includes minimum capital requirements for bank holding companies. See the section titled "Regulation and Supervision – Regulatory Capital Requirements". Under certain conditions, the FRB may conclude that certain actions of a bank holding company, such as the payment of a cash dividend, would constitute an unsafe and unsound banking practice.

"Source of Strength" Policy

Regulations and policies of the FRB also require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the FRB's policy that a bank holding company should stand ready to use available resources to provide adequate capital funds to a subsidiary bank during periods of financial stress or adversity and that it should maintain the financial flexibility and capital-raising capacity needed to obtain additional resources for assisting the subsidiary bank.

Securities and Exchange Commission Filings

Under Section 13 of the Securities Exchange Act of 1934 ("Exchange Act") and the SEC's rules, the Company must electronically file periodic and current reports as well as proxy statements with the Securities and Exchange Commission (the "SEC"). The Company electronically files the following reports with the SEC: Form 10-K (Annual Report), Form 10-Q (Quarterly Report), and Form 8-K (Current Report). The Company may prepare additional filings as required. The SEC maintains an Internet site, http://www.sec.gov, at which all forms filed electronically may be accessed. Our SEC filings are also available on our website at http://www.bridgebank.com.

Regulation of the Bank

The Bank is regulated and supervised by the Comptroller of the Currency and is subject to periodic examination by the Comptroller. Deposits of the Bank's customers are insured by the FDIC up to the maximum limit of $100,000, and, as an insured bank, the Bank is subject to certain regulations of the FDIC. As a national bank, the Bank is a member of the Federal Reserve System and is also subject to the regulations of the FRB.

The regulations of those federal bank regulatory agencies govern most aspects of the Bank's business and operations, including but not limited to, requiring the maintenance of non-interest bearing reserves on deposits, limiting the nature and amount of investments and loans which may be made, regulating the issuance of securities, restricting the payment of dividends and regulating bank expansion and bank activities. The Bank also is subject to the requirements and restrictions of various consumer laws and regulations.

Statutes, regulations and policies affecting the banking industry are frequently under review by Congress and by the federal bank regulatory agencies that are charged with supervisory and examination authority over banking institutions. Changes in the banking and financial services industry are likely to occur in the future. Some of the changes may create opportunities for the Bank to compete in financial markets with less regulation. However, these changes also may create new competitors in geographic and product markets which have historically been limited by law to insured depository institutions such as the Bank. Changes in the statutes, regulations, or policies that affect the Bank cannot necessarily be predicted and may have a material effect on the Bank's business and earnings. In addition, the regulatory agencies which have jurisdiction over the Bank have broad discretion in exercising their supervisory powers.

The OCC can pursue an enforcement action against the Bank for unsafe and unsound practices in conducting its business, or for violations of any law, rule or regulation or provision, any consent order with any agency, any condition imposed in writing by the agency, or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, cease-and-desist orders and written agreements, the termination of insurance of deposits, the imposition of civil money penalties and removal and prohibition orders against institution-affiliated parties.

In addition to the regulation and supervision outlined above, banks must be prepared for judicial scrutiny of their lending and collection practices. For example, some banks have been found liable for exercising remedies which their loan documents authorized upon the borrower's default. This has occurred in cases where the exercise of those remedies was determined to be inconsistent with the previous course of dealing between the bank and the borrower. As a result, banks must exercise caution, incur expense and face exposure to liability when dealing with delinquent loans.

The following description of selected statutory and regulatory provisions and proposals is not intended to be a complete description of these provisions or of the many laws and regulations to which the Bank is subject, and is qualified in its entirety by reference to the particular statutory or regulatory provisions discussed.

A. Effect of State Law

The laws of the State of California affect the Bank's business and operations. For example, under 12 U.S.C. 36, as amended by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, state laws regarding community reinvestment, consumer protection, fair lending and establishment of intrastate branches may affect the operations of national banks in states other than their home states. On a similar basis, 12 U.S.C. 85 provides that state law, in most circumstances, determines the maximum rate of interest which a national bank may charge on a loan. As California law exempts all state-chartered and national banks from the application of its usury laws, national banks are also provided such an exemption by 12 U.S.C. 85.

B. Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act") regulates the interstate activities of banks and bank holding companies and establishes a framework for nationwide interstate banking and branching. In general, a bank in one state has generally been permitted to merge with a bank in another state without the need for explicit state law authorization. However, when the Interstate Banking Act was enacted states were given the ability to prohibit interstate mergers with banks in their own state by "opting-out" (enacting state legislation applying to all out-of-state banks prohibiting such mergers).

Adequately capitalized and managed bank holding companies have been permitted to acquire banks located in any state, subject to two exceptions: first, a state may still prohibit bank holding companies from acquiring a bank which is less than five years old; and second, no interstate acquisition can be consummated by a bank holding company if the acquiror would control more than 10% of the deposits held by insured depository institutions nationwide or 30% or more of the deposits held by insured depository institutions in any state in which the target bank has branches.

A bank may also establish and operate de novo branches in any state in which the bank does not maintain a branch if that state has enacted legislation to expressly permit all out-of-state banks to establish branches in that state.

Among other things, the Interstate Banking Act amended the Community Reinvestment Act to require that in the event a bank has interstate branches, the appropriate federal banking regulatory agency must prepare for that institution a written evaluation of (i) the bank's record of CRA performance and (ii) the bank's CRA performance in each applicable state. Interstate branches are now prohibited from being used as deposit production offices. Also, a foreign (other state) bank is permitted to establish branches in any state other than its home state to the same extent that a bank chartered by the foreign (other state) bank's home state may establish such branches.

In California, the Caldera, Weggeland, and Killea California Interstate Banking and Branching Act of 1995 (the "Caldera Weggeland Act") implemented important provisions of the Interstate Banking Act discussed above and repealed California's previous interstate banking laws, which were largely preempted by the Interstate Banking Act.

As indicated above, the Interstate Banking Act generally permits a bank in one state to merge with a bank in another state without the need for explicit state law authorization. However, the Caldera Weggeland Act expressly prohibits a foreign (other state) bank which does not already have a California branch office from (i) purchasing a branch office of a California bank (as opposed to purchasing the entire bank) and thereby establishing a California branch office or (ii) establishing a California branch on a de novo basis.

The Interstate Banking Act also requires, among other things, approval of the state bank supervisor of the target bank's home state for interstate acquisitions of banks by bank holding companies. The Caldera Weggeland Act authorizes the Commissioner to approve such an interstate acquisition if the Commissioner finds that the transaction is consistent with certain criteria specified by law.

The Interstate Banking Act and Caldera Weggeland Act are expected to continue to increase competition in the environment in which the Bank operates to the extent that out-of-state financial institutions may directly or indirectly enter the Bank's market areas. It appears that the Interstate Banking Act has contributed to the accelerated consolidation of the banking industry in that a number of the largest bank holding companies have expanded into different parts of the country that were previously restricted. While some large out-of-state banks have entered the California market as a result of this legislation, it is not possible to predict the precise impact of this legislation on the Bank and the competitive environment in which it operates.

C. Change in Bank Control

The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with regulations of the FRB and the Comptroller, require that, depending on the particular circumstances, either FRB approval must be obtained or notice must be furnished to the Comptroller and not disapproved prior to any person or company acquiring "control" of a national bank, such as the Bank, subject to exemptions for some transactions. Control is conclusively presumed to exist if an individual or company (i) acquires 25% or more of any class of voting securities of the bank or (ii) has the direct or indirect power to direct or cause the direction of the management and policies of the Bank, whether through ownership of voting securities, by contract or otherwise; provided that no individual will be deemed to control the Bank solely on accord of being director, officer or employee of the Bank. Control is rebuttably presumed to exist if a person acquires 10% or more but less than 25% of any class of voting securities and either the company has registered securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or no other person will own a greater percentage of that class of voting securities immediately after the transaction.

D. Regulation W

The FRB has adopted Regulation W to comprehensively implement sections 23A and 23B of the Federal Reserve Act.

Sections 23A and 23B and Regulation W limit the risks to a bank from transactions between the bank and its affiliates and limit the ability of a bank to transfer to its affiliates the benefits arising from the bank's access to insured deposits, the payment system and the discount window and other benefits of the Federal Reserve system. The statute and rule impose quantitative and qualitative limits on the ability of a bank to extend credit to, or engage in certain other transactions with, an affiliate (and a nonaffiliate if an affiliate benefits from the transaction). However, certain transactions that generally do not expose a bank to undue risk or abuse the safety net are exempted from coverage under Regulation W.

Historically, a subsidiary of a bank was not considered an affiliate for purposes of Sections 23A and 23B, since their activities were limited to activities permissible for the bank itself. However, the Gramm-Leach-Bliley Act authorized “financial subsidiaries” that may engage in activities not permissible for a bank. These financial subsidiaries are now considered affiliates. Certain transactions between a financial subsidiary and another affiliate of a bank are also covered by sections 23A and 23B and under Regulation W.

Regulation W provides certain exemptions, including:

- For state-chartered banks, an exemption for subsidiaries lawfully conducting nonbank activities before issuance of the final rule.

- An exemption for extensions of credit by a bank under a general purpose credit card where the borrower uses the credit to purchase goods or services from an affiliate of the bank, so long as less than 25% of the aggregate amount of purchases with the card are purchases from an affiliate of the bank (a bank that does not have non-financial affiliates is exempt from the 25% test).

- An exemption for loans by a bank to a third party secured by securities issued by a mutual fund affiliate of the bank (subject to a number of conditions).

- Subject to a number of conditions, an exemption that would permit a banking organization to engage more expeditiously in internal reorganization transactions involving a bank's purchase of assets from an affiliate.

The final rule contains new valuation rules for a bank's investments in, and acquisitions of, affiliates.

The Federal Reserve expects examiners and other supervisory staff to review intercompany transactions closely for compliance with the statutes and Regulation W and to resolve any violations or potential violations quickly.

E. Tying Arrangements and Transactions with Affiliated Persons

A bank is prohibited from tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with some exceptions, a bank may not condition an extension of credit on a promise by its customer to obtain other services provided by it, its holding company or other subsidiaries (if any), or on a promise by its customer not to obtain other services from a competitor.

Directors, officers and principal shareholders of the Bank, and the companies with which they are associated, may have banking transactions with the Bank in the ordinary course of business. Any loans and commitments to loan included in these transactions must be made in compliance with the requirements of applicable law, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar creditworthiness, and on terms not involving more than the normal risk of collectibility or presenting other unfavorable features.

F. Capital Adequacy Requirements

The Bank is subject to the Comptroller 's capital guidelines and regulations governing capital adequacy for national banks. The Comptroller may impose additional capital requirements on banks based on market risk. The Comptroller requires a leverage ratio of 8.0% 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 3.0% for national banks that have received the highest composite regulatory rating (a regulatory measurement of capital, assets, management, earnings, liquidity and sensitivity to risk) and that are not anticipating or experiencing any significant growth. All other institutions will be required to maintain a leverage ratio of at least 100 to 200 basis points above the 3.0% minimum.

The Comptroller's regulations also require national banks to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8.0%. 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[1/].

The risk-based capital ratio focuses principally on broad categories of credit risk, and may 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 bank'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, are required to 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 a financial intermediary, it introduces volatility to bank earnings and to the economic value of the bank. 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 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.

During an examination the federal banking agencies evaluate an institution with respect to 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 they 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 must be maintained at levels which are higher than the minimum levels required by the guidelines. A national bank which does not achieve and maintain required capital levels may be subject to supervisory action by the Comptroller through the issuance of a

[1/] Tier 1 capital is generally defined as the sum of the core capital elements less goodwill and certain intangibles. The following items are defined as core capital elements: (i) common stockholders' equity; (ii) qualifying non-cumulative perpetual preferred stock and related surplus; and (iii) minority interests in the equity accounts of consolidated subsidiaries.

capital directive to ensure the maintenance of required capital levels. In addition, the Bank is required to meet certain guidelines of the Comptroller concerning the maintenance of an adequate allowance for loan and lease losses.

The federal banking agencies, including the OCC, have adopted regulations implementing a system of prompt corrective action under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"). The regulations establish five capital categories with the following characteristics: (1) "Well capitalized," consisting of institutions with a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 5.0% or greater and which are not operating under an order, written agreement, capital directive or prompt corrective action directive; (2) "Adequately capitalized," consisting of institutions with a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital of 4.0% or greater and a leverage ratio of 4.0% or greater and which do not meet the definition of a "well capitalized" institution; (3) "Undercapitalized," consisting of institutions with a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a leverage ratio of less than 4.0%; (4) "Significantly undercapitalized," consisting of institutions with a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%; and (5) "Critically undercapitalized," consisting of institutions with a ratio of tangible equity to total assets that is equal to or less than 2.0%.

The regulations establish procedures for the classification of financial institutions within the capital categories, for filing and reviewing capital restoration plans required under the regulations, and for the issuance of directives by the appropriate regulatory agency, among other matters. See "SUPERVISION AND REGULATION -- Prompt Corrective Action."

The appropriate federal banking agency, after notice and an opportunity for a hearing, is authorized to treat a well capitalized, adequately capitalized or undercapitalized insured depository institution as if it had a lower capital-based classification if it is in an unsafe and unsound condition or engaging in an unsafe and unsound practice. Thus, an adequately capitalized institution can be subjected to the restrictions (described below) that are imposed on undercapitalized institutions (provided that a capital restoration plan cannot be required of the institution), and an undercapitalized institution can be subjected to the restrictions (also described below) applicable to significantly undercapitalized institutions. See "SUPERVISION AND REGULATION -- Prompt Corrective Action."

An insured depository institution cannot make a capital distribution (as broadly defined to include, among other things, dividends, redemptions and other repurchases of stock), or pay management fees to any person or persons that control the institution, if it would be undercapitalized following the distribution. However, a federal banking agency may (after consultation with the FDIC) permit an insured depository institution to repurchase, redeem, retire or otherwise acquire its shares if (i) the action is taken in connection with the issuance of additional shares or obligations in at least an equivalent amount and (ii) the action will reduce the institution's financial obligations or otherwise improve its financial condition. An undercapitalized institution is generally prohibited from increasing its average total assets, and is also generally prohibited from making acquisitions, establishing new branches, or engaging in any new line of business except under an accepted capital restoration plan or with the approval of the FDIC. In addition, a federal banking agency has authority with respect to undercapitalized depository institutions to take any of the actions it is required to or may take with respect to a significantly undercapitalized institution (as described below) if it determines "that those actions are necessary to carry out the purpose" of FDICIA.

The federal banking agencies have adopted a joint agency policy statement to provide guidance on managing interest rate risk. The statement indicates that the adequacy and effectiveness of a bank's interest rate risk management process and the level of its interest rate exposures are critical factors in the agencies' evaluation of the bank's capital adequacy. If a bank has material weaknesses in its risk management process or high levels of exposure relative to its capital, the agencies will direct it to take corrective action. These directives may include recommendations or directions to raise additional capital, strengthen management expertise, improve management information and measurement systems, or reduce levels of exposure, or to undertake some combination of these actions.

The federal banking agencies have also issued an interagency policy statement that, among other things, establishes benchmark ratios of loan loss reserves to specified classified assets. The benchmark established by the policy statement is the sum of (a) 100% of assets classified loss; (b) 50% of assets classified doubtful; (c) 15% of assets classified substandard; and (d) estimated credit losses on other assets over the upcoming 12 months. This amount is neither a "floor" nor a "safe harbor" level for an institution's allowance for loan losses.

At December 31, 2006, the Bank is in compliance with the Comptroller's risk-based and leverage ratios. See Footnote 15 to the Bank's Financial Statements included under Item 8 of this Annual Report.

G. Payment of Dividends

The ability of the Company to make dividend payments is subject to statutory and regulatory restrictions. FDIC policies generally preclude dividend payments during the first three years of operation, allow cash dividends to be paid only from net operating income, and do not permit dividends to be paid until an appropriate allowance for loans and lease losses has been established and overall capital is adequate. The FDIC requires that a depository institution maintain a leverage ratio of not less than 8.0% during the first three years of operation. See “SUPERVISION AND REGULATION – Capital Adequacy Requirements.”

After the first three years of operations, the Board of Directors of a national bank may declare the payment of dividends depending upon the earnings, financial condition and cash needs of the bank and general business conditions. A national bank may not pay dividends from its capital. All dividends must be paid out of net profits then on hand, after deducting losses and bad debts. A national bank is further prohibited from declaring a dividend on its shares of common stock until its surplus fund equals the amount of capital stock or until 10.0% of the bank's net profits of the preceding half year in the case of quarterly or semiannual dividends, or the preceding two consecutive half-year periods in the case of an annual dividend, are transferred to the surplus fund. The approval of the Comptroller is required for the payment of dividends if the total of all dividends declared by the bank in any calendar year would exceed the total of its net profits of that year combined with its retained net profits of the two preceding years, less any required transfers to surplus or a fund for the retirement of any preferred stock.

In addition to the above requirements, guidelines adopted by the Comptroller set forth factors which are to be considered by a national bank in determining the payment of dividends. A national bank, in assessing the payment of dividends, is to evaluate the bank's capital position, its maintenance of an adequate allowance for loan and lease losses, and the need to revise or develop a comprehensive capital plan.

The Comptroller also has broad authority to prohibit a national bank from engaging in banking practices which it considers to be unsafe or unsound. It is possible, depending upon the financial condition of the national bank in question and other factors, that the Comptroller may assert that the payment of dividends or other payments by a bank is considered an unsafe or unsound banking practice and therefore, implement corrective action to address such a practice.

Accordingly, the future payment of cash dividends by the Company will not only depend upon the Bank's earnings during any fiscal period but will also depend upon the assessment of its Board of Directors of capital requirements and other factors, including dividend guidelines and the maintenance of an adequate allowance for loan and lease losses.

H. Community Reinvestment Act

Under the Community Reinvestment Act (“CRA”) regulations, the federal banking agencies determine a bank’s CRA rating by evaluating its performance on lending, service and investment tests, with the lending test being the most important. The tests are applied in an “assessment context” that is developed by the agency for the particular institution. The assessment context takes into account demographic data about the community, the community’s characteristics and needs, the institution’s capacities and constraints, the institution’s product offerings and business strategy, the institution’s prior performance, and data on similarly situated lenders. Since the assessment context for each bank is developed by the bank regulatory agencies, a particular bank does not know until it is examined whether its CRA programs and efforts have been sufficient.

Institutions, like the Bank, with $250.0 million or more in assets are required to compile and report data on their lending activities to measure the performance of their loan portfolio. Some of this data is already required under other laws, such as the Equal Credit Opportunity Act. Institutions have the option of being evaluated for CRA purposes in relation to their own pre-approved strategic plan. A strategic plan must be submitted to the institution’s regulator three months before its effective date and must be published for public comment.

I. Audit Requirements

Depository institutions are required to have an annual examination of their financial records. Depository institutions with assets greater than $500.0 million are required to have annual, independent audits and to prepare all financial statements in compliance with generally accepted accounting principles. Depository institutions are also required to have an independent audit committee comprised entirely of outside directors, independent of the institution’s management.

The Bank's accounting and reporting policies conform with generally accepted accounting principles and the practices prevalent in the banking industry.

J. Insurance Premiums and Assessments

The FDIC has authority to impose a special assessment on members of the Deposit Insurance Fund (the "DIF") to insure that there will be sufficient assessment income for repayment of DIF obligations and for any other purpose which it deems necessary. The FDIC is authorized to set semi-annual assessment rates for DIF members at levels sufficient to maintain the DIF's reserve ratio to a designated level of 1.25% of insured deposits.

Under FDICIA, the FDIC has developed a risk-based assessment system, which provides that the assessment rate for an insured depository institution will vary according to the level of risk incurred in its activities. An institution's risk category is based upon whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. Each insured depository institution is also to be assigned to one of three "supervisory subgroups": Subgroup A institutions are financially sound institutions with a few minor weaknesses; Subgroup B institutions are institutions that demonstrate weaknesses which, if not corrected, could result in significant deterioration; and Subgroup C institutions are institutions for which there is a substantial probability that the FDIC will suffer a loss in connection with the institution unless effective action is taken to correct the areas of weakness. The FDIC assigns each DIF member institution an annual FDIC assessment rate on DIF insured deposits.

In December 2006, the FDIC issued amended rules intended to make the deposit insurance assessment system react more quickly and more accurately to changes in institutions' risk profiles, create a new system for risk-based assessments, and set assessment rates for the period beginning January 1, 2007. Among other things, the amendments provide that (i) deposit insurance assessments will be collected for one quarter at the end of the next quarter, (ii) an existing institution with $1.0 billion or more in assets and any institution that becomes insured on or after January 1, 2007 will have its assessment base determined using average daily balances, (iii) the float deduction previously used to determine the assessment base is eliminated, (iv) the nine assessment rate categories that were used previously were consolidated into four new categories, and (v) the designated reserve ratio is being maintained at 1.25%, subject to annual review. The amended rules also establish that effective January 1, 2007 the assessment rates will range from 5 to 7 basis points for Risk Category I institutions and will be 10 basis points for Risk Category II institutions, 28 basis points for Risk Category III institutions, and 43 basis points for Risk Category IV institutions.

K. Prompt Corrective Action

The FDIC has authority: (a) to request that an institution's primary regulatory agency (in the case of the Bank, the OCC) take enforcement action against it based upon an examination by the FDIC or the agency, (b) if no action is taken within 60 days and the FDIC determines that the institution is in an unsafe and unsound condition or that failure to take the action will result in continuance of unsafe and unsound practices, to order that action be taken against the institution, and (c) to exercise this enforcement authority under "exigent circumstances" merely upon notification to the institution's primary regulatory agency. This authority gives the FDIC the same enforcement powers with respect to any institution and its subsidiaries and affiliates as the primary regulatory agency has with respect to those entities.

An undercapitalized institution is required to submit an acceptable capital restoration plan to its primary federal bank regulatory agency. The plan must specify (a) the steps the institution will take to become adequately capitalized, (b) the capital levels to be attained each year, (c) how the institution will comply with any regulatory sanctions then in effect against the institution and (d) the types and levels of activities in which the institution will engage. The banking agency may not accept a capital restoration plan unless the agency determines, among other things, that the plan "is based on realistic assumptions, and is likely to succeed in restoring the institution's capital" and "would not appreciably increase the risk . . . to which the institution is exposed." A requisite element of an acceptable capital restoration plan for an undercapitalized institution is a guaranty by its parent holding company that the institution will comply with the capital restoration plan. Liability with respect to this guaranty is limited to the lesser of (i) 5% of the institution's assets at the time when it becomes undercapitalized and (ii) the amount necessary to bring the institution into capital compliance with applicable capital standards as of the time when the institution fails to comply with the plan. The guaranty liability is limited to companies controlling the undercapitalized institution and does not affect other affiliates. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment over the claims of other creditors, including the holders of the company's long-term debt.

FDICIA provides that the appropriate federal regulatory agency must require an insured depository institution that is significantly undercapitalized, or that is undercapitalized and either fails to submit an acceptable capital restoration plan within the time period allowed by regulation or fails in any material respect to implement a capital restoration plan accepted by the appropriate federal banking agency, to take one or more of the following actions: (a) sell enough shares, including voting shares, to become adequately capitalized; (b) merge with (or be sold to) another institution (or holding company), but only if grounds exist for appointing a conservator or receiver; (c) restrict specified transactions with banking affiliates as if the "sister bank" exception to the requirements of Section 23A of the Federal Reserve Act did not exist; (d) otherwise restrict transactions with bank or non-bank affiliates; (e) restrict interest rates that the institution pays on deposits to "prevailing rates" in the institution's "region"; (f) restrict asset growth or reduce total assets; (g) alter, reduce or terminate activities; (h) hold a new election of directors; (i) dismiss any director or senior executive officer who held office for more than 180 days immediately before the institution became undercapitalized, provided that in requiring dismissal of a director or senior executive officer, the agency must comply with procedural requirements, including the opportunity for an appeal in which the director or officer will have the burden of proving his or her value to the institution; (j) employ "qualified" senior executive officers; (k) cease accepting deposits from correspondent depository institutions; (l) divest non-depository affiliates which pose a danger to the institution; (m) be divested by a parent holding company; and (n) take any other action which the agency determines would better carry out the purposes of the prompt corrective action provisions.

In addition to the foregoing sanctions, without the prior approval of the appropriate federal banking agency, a significantly undercapitalized institution may not pay any bonus to any senior executive officer or increase the rate of compensation for a senior executive officer without regulatory approval. If an undercapitalized institution has failed to submit or implement an acceptable capital restoration plan the appropriate federal banking agency is not permitted to approve the payment of a bonus to a senior executive officer.

Not later than 90 days after an institution becomes critically undercapitalized, the institution's primary federal bank regulatory agency must appoint a receiver or a conservator, unless the agency, with the concurrence of the FDIC, determines that the purposes of the prompt corrective action provisions would be better served by another course of action. Any alternative determination must be documented by the agency and reassessed on a periodic basis. Notwithstanding the foregoing, a receiver must be appointed after 270 days unless the FDIC determines that the institution has positive net worth, is in compliance with a capital plan, is profitable or has a sustainable upward trend in earnings, and is reducing its ratio of non-performing loans to total loans, and unless the head of the appropriate federal banking agency and the chairperson of the FDIC certify that the institution is viable and not expected to fail.

The FDIC is required, by regulation or order, to restrict the activities of critically undercapitalized institutions. The restrictions must include prohibitions on the institution's doing any of the following without prior FDIC approval: entering into any material transactions not in the usual course of business, extending credit for any highly leveraged transaction; engaging in any "covered transaction" (as defined in Section 23A of the Federal Reserve Act) with an affiliate; paying "excessive compensation or bonuses"; and paying interest on "new or renewed liabilities" that would increase the institution's average cost of funds to a level significantly exceeding prevailing rates in the market.

L. Potential Enforcement Actions; Supervisory Agreements

Under federal law, national banks and their institution-affiliated parties may be the subject of potential enforcement actions by the OCC for unsafe and unsound practices in conducting their businesses, or for violations of any law, rule or regulation or provision, any consent order with any agency, any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, cease-and-desist orders and written agreements, the termination of insurance of deposits, the imposition of civil money penalties and removal and prohibition orders against institution-affiliated parties.

M. Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 implemented legislative reforms intended to address corporate and accounting fraud. In addition to the establishment of an accounting oversight board to enforce auditing, quality control and independence standards, the law restricts provision of both auditing and consulting services by accounting firms. To ensure auditor independence, any non-audit services being provided to an audit client require pre-approval by the company's audit committee members. In addition, the audit partners assigned to the company must be rotated every five years. The Act requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willfully violate the certification requirement. In addition, under the Act legal counsel are required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

In addition, longer prison terms and increased penalties apply to corporate executives who violate federal securities laws, the period during which certain types of suits can be brought against a company or its officers is extended, and bonuses issued to top executives prior to restatement of a company's financial statements are subject to disgorgement if the restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan "blackout" periods, and loans to company executives are restricted. The Act accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in a company's securities within two business days of the change.

The Act also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statement's materially misleading. The Act requires the SEC to prescribe rules requiring inclusion of an internal control report and assessment by both management and the external auditors in the annual report to stockholders. In addition, the Act requires that each financial report required to be prepared in accordance with (or reconciled to) accounting principles generally accepted in the United States and filed with the SEC reflect all material correcting adjustments that are identified by a "registered public accounting firm" in accordance with accounting principles generally accepted in the United States and the rules and regulations of the SEC.

A company’s chief executive officer and chief financial officer are each required to certify that the Company’s quarterly and annual reports do not contain any untrue statement of a material fact. The rules have several requirements, including having these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Bank’s internal controls; they have made certain disclosures to the Bank’s auditors and the audit committee of the Board of Directors about the company’s internal controls; and they have included information in the Company’s quarterly and annual reports about their evaluation and whether there have been significant changes in the Bank’s internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

N. USA PATRIOT Act

Pursuant to USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- To conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- To ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- To ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- To ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

The USA PATRIOT Act, requires financial institutions to establish anti-money laundering programs and sets forth minimum standards for these programs, including:

- The development of internal policies, procedures, and controls;
- The designation of a compliance officer;
- An ongoing employee training program; and
- An independent audit function to test the programs.

The Bank has adopted comprehensive policies and procedures to address the requirements of the USA PATRIOT Act, and management believes that the Bank is currently in compliance with the Act.

O. Money Laundering Control Act

The Money Laundering Control Act of 1986 provides sanctions for the failure to report high levels of cash deposits to non-bank financial institutions. Federal banking regulators possess the power to revoke the charter or appoint a conservator for any institution convicted of money laundering. Offending banks could lose their federal deposit insurance, and bank officers could face lifetime bans from working in financial institutions. The Community Development Act, which includes a number of provisions that amend the Bank Secrecy Act, allows the Secretary of the Treasury to exempt specified currency transactions from reporting requirements and permits the federal bank regulatory agencies to impose civil money penalties on banks for violations of the currency transaction reporting requirements.

P. Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act eliminated many of the barriers that separated the insurance, securities and banking industries since the Great Depression. The Gramm-Leach-Bliley Act is the result of a decade of debate in the Congress regarding a fundamental reformation of the nation's financial system. The law is subdivided into seven titles, by functional area.

The major provisions of the Gramm-Leach-Bliley Act are:

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Financial Holding Companies and Financial Activities. Title I establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHC Act framework to permit a holding company system to engage in a full range of financial activities through qualification as a new entity known as a financial holding company.

Activities permissible for financial subsidiaries of national banks include, but are not limited to, the following: (a) Lending, exchanging, transferring, investing for others, or safeguarding money or securities; (b) Insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker for purposes of the foregoing, in any State; (c) Providing financial, investment, or economic advisory services, including advising an investment company; (d) Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and (e) Underwriting, dealing in, or making a market in securities.

Securities Activities. Title II narrows the exemptions from the securities laws previously enjoyed by banks.

Insurance Activities. Title III restates the proposition that the states are the functional regulators for all insurance activities, including the insurance activities of federally-chartered banks, and bars the states from prohibiting insurance activities by depository institutions.

Privacy. Under Title V, federal banking regulators were required to adopt rules that have limited the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. Under the rules, financial institutions must provide:

- initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- annual notices of their privacy policies to current customers; and
- a reasonable method for customers to "opt out" of disclosures to nonaffiliated third parties.

Safeguarding Confidential Customer information. Under Title V, federal banking regulators were required to adopt rules requiring financial institutions to implement a program to protect confidential customer information, and the federal banking agencies have adopted guidelines requiring financial institutions to establish an information security program. The federal bank regulatory agencies have established standards for safeguarding nonpublic personal information about customers that implement provisions of the Gramm-Leach Bliley Act (the “Guidelines”). Among other things, the Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

The Bank implemented a security program appropriate to its size and complexity and the nature and scope of its operations prior to the July 1, 2001 effective date of the regulatory guidelines, and since initial implementation has, as necessary updated and improved that program.

Community Reinvestment Act Sunshine Requirements. The federal banking agencies have adopted regulations implementing Section 711 of Title VII, the CRA Sunshine Requirements. The regulations require nongovernmental entities or persons and insured depository institutions and affiliates that are parties to written agreements made in connection with the fulfillment of the institution's CRA obligations to make available to the public and the federal banking agencies a copy of each agreement. The Bank is not a party to any agreement that would be the subject of reporting pursuant to the CRA Sunshine Requirements.

The Bank intends to comply with all provisions of the Gramm-Leach-Bliley Act and all implementing regulations as they become effective.

Q. Fair Credit Reporting

The Fair Credit Reporting Act (the "FCRA") was adopted to ensure the confidentiality, accuracy, relevancy and proper utilization of consumer credit report information. Under the framework of the FCRA, the United States has developed a highly advanced and efficient credit reporting system. The information contained in that broad system is used by financial institutions, retailers and other creditors of every size in making a wide variety of decisions regarding financial transactions. Employers and law enforcement agencies have also made wide use of the information collected and maintained in databases made possible by the FCRA. The FCRA affirmatively preempts state law in a number of areas, including the ability of entities affiliated by common ownership to share and exchange information freely, the requirements on credit bureaus to reinvestigate the contents of reports in response to consumer complaints, among others.

R. Consumer Laws and Regulations

The Bank must also comply with consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, among others. These laws and regulations mandate disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing regulatory compliance and customer relations efforts.

S. Exposure to and Management of Risk

The federal banking agencies examine banks and bank holding companies with respect to their exposure to and management of different categories of risk. Categories of risk identified by the agencies include legal risk, operational risk, market risk, credit risk, interest rate risk, price risk, foreign exchange risk, transaction risk, compliance risk, strategic risk, credit risk, liquidity risk, and reputation risk. This examination approach causes bank regulators to focus on risk management procedures, rather than simply examining every asset and transaction. This approach supplements rather than replaces existing rating systems based on the evaluation of an institution's capital, assets, management, earnings and liquidity.

T. Safety and Soundness Standards

Federal banking regulators have adopted a Safety and Soundness Rule and Interagency Guidelines Prescribing Standards for Safety and Soundness. The guidelines create standards for a wide range of operational and managerial matters including (a) internal controls, information systems, and internal audit systems; (b) loan documentation; (c) credit underwriting; (d) interest rate exposure; (e) asset growth; (f) compensation and benefits; and (g) asset quality and earnings.

The Community Development Act requires the federal bank regulatory agencies to prescribe standards prohibiting as an unsafe and unsound practice the payment of excessive compensation that could result in material financial loss to an institution, and to specify when compensation, fees or benefits become excessive. These guidelines characterize compensation as excessive if it is unreasonable or disproportionate to the services actually performed by the executive officer, employee, director or principal shareholder being compensated.

Federal regulators have stated that the guidelines are meant to be flexible and general enough to allow each institution to develop its own systems for compliance. With the exception of the standards for compensation and benefits, a failure to comply with the guidelines' standards does not necessarily constitute an unsafe and unsound practice or condition. On the other hand, an institution in conformance with the standards may still be found to be engaged in an unsafe and unsound practice or to be in an unsafe and unsound condition.

Although meant to be flexible, an institution that falls short of the guidelines' standards may be requested to submit a compliance plan or be subjected to regulatory enforcement actions. Generally, the federal banking agencies will request a compliance plan if an institution's failure to meet one or more of the standards is of sufficient severity to threaten the safe and sound operation of the institution. An institution must file a compliance plan within 30 days of request by its primary federal regulator, which is the OCC in the case of the Bank. The guidelines provide for prior notice of and an opportunity to respond to the agency's proposed order. An enforcement action may be commenced if, after being notified that it is in violation of a safety and soundness standard, the institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted plan. The Federal Deposit Insurance Act provides the agencies with a wide range of enforcement powers. An agency may, for example, obtain an enforceable cease and desist order in the United States District Court, or may assess civil money penalties against an institution or its affiliated parties.

U. Impact of Government Monetary Policy

The earnings of the Bank are and will be affected by the policies of regulatory authorities, including the Federal Reserve. An important function of the Federal Reserve is to regulate the national supply of bank credit. Among the instruments used to implement these objectives are open market operations in U.S. Government securities, changes in reserve requirements against bank deposits, and changes in the discount rate which banks pay on advances from the Federal Reserve System. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may also affect interest rates on loans or interest rates paid for deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effect, if any, of such policies upon the future business earnings of the Bank cannot be predicted.

V. Legislation and Proposed Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress and before various bank regulatory agencies. For example, from time to time Congress has considered various proposals to eliminate the federal thrift charter, create a uniform financial institutions charter, conform holding company regulation, and abolish the Office of Thrift Supervision. Typically, the intent of this type of legislation is to strengthen the banking industry, even if it may on occasion prove to be a burden on management's plans. No prediction can be made as to the likelihood of any major changes or the impact that new laws or regulations might have on the Bank.

W. Conclusions

It is impossible to predict with any certainty the competitive impact the laws and regulations described above will have on commercial banking in general and on the business of the Bank in particular, or to predict whether or when any of the proposed legislation and regulations described above will be adopted. It is anticipated that banking will continue to be a highly regulated industry. Additionally, there has been a continued lessening of the historical distinction between the services offered by financial institutions and other businesses offering financial services, and the trend toward nationwide interstate banking is expected to continue. As a result of these factors, it is anticipated banks will experience increased competition for deposits and loans and, possibly, further increases in their cost of doing business.

<u>Item 1A. Risk Factors</u>

RISK FACTORS

Readers and prospective investors in our securities should carefully consider the following risk factors as well as the other information contained or incorporated by reference in this report.

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company's securities could decline significantly, and you could lose all or part of your investment.

Market and Interest Rate Risk

Changes in interest rates could reduce income and cash flow

The discussion in this report under "Item 7a Quantitative and Qualitative Disclosures About Market Risk" is incorporated by reference in this paragraph. The Company's income and cash flow depend to a great extent on the difference between the interest earned on loans and investment securities, and the interest paid on deposits and other borrowings. We cannot control or prevent changes in the level of interest rates. They fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies, in particular, the FRB. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and the rates received on loans and investment securities and paid on deposits and other liabilities.

Risks Related to the nature and geographical location of Bridge Capital Holdings' business

Bridge Capital Holdings' invests in loans that contain inherent credit risks that may cause us to incur losses

The Company closely monitors the markets in which it conducts its lending operations and adjusts its strategy to control exposure to loans with higher credit risk. Asset reviews are performed using grading standards and criteria similar to those employed by bank regulatory agencies. We can provide no assurance that the credit quality of our loans will not deteriorate in the future and that such deterioration will not adversely affect the Company.

Bridge Capital Holdings' operations are concentrated geographically in California, and poor economic conditions may cause us to incur losses.

Substantially all of Bridge Capital Holdings' business is located in California. Bridge Capital Holdings' financial condition and operating results will be subject to changes in economic conditions in California. In the early to mid-1990s, California experienced a significant and prolonged downturn in its economy, which adversely affected financial institutions. Economic conditions in California are subject to various uncertainties at this time, including the decline in the technology sector, the California state government's budgetary difficulties and continuing fiscal difficulties. The Company will be subject to changes in economic conditions. We can provide no assurance that conditions in the California economy will not deteriorate in the future and that such deterioration will not adversely effect Bridge Capital Holdings.

The markets in which Bridge Capital Holdings operates are subject to the risk of earthquakes and other natural disasters

Most of the properties of Bridge Capital Holdings are located in California. Also, most of the real and personal properties which currently secure the company's loans are located in California. California is a state which is prone to earthquakes, brush fires, flooding and other natural disasters. In addition to possibly sustaining damage to its own properties, if there is a major earthquake, flood or other natural disaster, Bridge Capital Holdings faces the risk that many of its borrowers may experience uninsured property losses, or sustained job interruption and/or loss which may materially impair their ability to meet the terms of their loan obligations. A major earthquake, flood or other natural disaster in California could have a material adverse effect on Bridge Capital Holdings' business, financial condition, results of operations and cash flows.

Substantial competition in the California banking market could adversely affect us

Banking is a highly competitive business. We compete actively for loan, deposit, and other financial services business in California. Our competitors include a large number of state and national banks, thrift institutions and credit unions, as well as many financial and non-financial firms that offer services similar to those offered by us. Other competitors include large financial institutions that have substantial capital, technology and marketing resources. Such large financial institutions may have greater access to capital at a lower cost than us, which may adversely affect our ability to compete effectively.

Regulatory Risks

Restrictions on dividends and other distributions could limit amounts payable to us

Various statutory provisions restrict the amount of dividends our subsidiaries can pay to us without regulatory approval. In addition, if any subsidiary of ours were to liquidate, that subsidiary's creditors will be entitled to receive distributions from the assets of that subsidiary to satisfy their claims against it before we, as a holder of an equity interest in the subsidiary, will be entitled to receive any of the assets of the subsidiary.

Adverse effects of, or changes in, banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect us

We are subject to significant federal and state regulation and supervision, which is primarily for the benefit and protection of our customers and not for the benefit of investors. In the past, our business has been materially affected by these regulations. This trend is likely to continue in the future. Laws, regulations or policies, including accounting standards and interpretations currently affecting us and our subsidiaries, may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, our business may be adversely affected by any future changes in laws, regulations, policies or interpretations or regulatory approaches to compliance and enforcement, including legislative and regulatory reactions to the terrorist attack on September 11, 2001 and future acts of terrorism, and major U.S. corporate bankruptcies and reports of accounting irregularities at U.S. public companies.

Additionally, our business is affected significantly by the fiscal and monetary policies of the federal government and its agencies. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the U.S. Under long-standing policy of the Federal Reserve Board, a bank holding company is expected to act as a source of financial strength for its subsidiary banks. As a result of that policy, we may be required to commit financial and other resources to our subsidiary bank in circumstances where we might not otherwise do so. Among the instruments of monetary policy available to the Federal Reserve Board are (a) conducting open market operations in U.S. government securities, (b) changing the discount rates of borrowings by depository institutions, and (c) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the Federal Reserve Board may have a material effect on our business, results of operations and financial condition.

Systems, Accounting and Internal Control Risks

The accuracy of the Company's judgments and estimates about financial and accounting matters will impact operating results and financial condition

The discussion under "Critical Accounting Policies and Estimates" in this report and the information referred to in that discussion is incorporated by reference in this paragraph. The Company makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Company's operating results and financial condition.

The Company's information systems may experience an interruption or breach in security

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management and systems. There can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected by the Company. The occurrence of any such failures, interruptions or security breaches could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

The Company's controls and procedures may fail or be circumvented

Management regularly reviews and updates the Company's internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

At December 31, 2006, the Company's operations included facilities as follows:

The principal executive office and a full service banking office is located at 55 Almaden Boulevard, City of San Jose, County of Santa Clara, State of California. The office consists of approximately 42,337 square feet on three floors of an eight-story office building. 24,767 square feet of the space was originally sublet from a prior tenant in a sublease which commenced December 26, 2003 and terminated December 31, 2006. The sublease provided for an initial base rent of $28,730 with annual escalations to $45,819 in the final year of the sublease. The Bank has entered into a direct lease with the landlord, which commenced immediately following the expiration of the sublease term on January 1, 2007 for 120 months ending on December 31, 2016. The direct lease provides for an initial twelve-month period of reduced rent followed by a base rent of $47,305 beginning on January 1, 2008 and increasing 3.0% on each anniversary date thereafter. The Bank has also entered into an additional direct lease with the landlord to occupy 17,570 square feet, which commenced November 1, 2006 and terminates on December 31, 2016. The direct lease provides for an initial twelve-month period with no rent followed by an initial base rent of $36,897 with annual escalations to $48,142 in the final year of the lease. The foregoing description is qualified by reference to the lease agreement dated November 1, 2006 attached as Exhibit 10.16 herein.

A non-banking administrative office is located at 2120 El Camino Real, in the City of Santa Clara, County of Santa Clara, State of California. The office is located in a freestanding, two-story building, consisting of 5,430 square feet, located at the intersection of El Camino Real and McCormick Drive. The premises include 42 parking spaces situated on a 35,719 square foot parcel. The premises are sublet from Washington Mutual Bank. The sublease provides for a base rent of $13,583 per month from the commencement date until the first anniversary of the sublease. On each anniversary date of the commencement of the sublease, the base rent will be increased by 4.0% of the amount of the basic rent during the prior year. The Bank is also responsible for real estate taxes and insurance costs. The sublease is for a period of ten (10) years, terminating on September 30, 2010. There is no option to extend the sublease beyond that date. Current lease payments are $17,186 per month through the anniversary of the commencement date. The foregoing description of the office is qualified by reference to the lease agreement dated August 31, 2000 exhibit 10.4 to this Report.

An additional full service banking office is located at 525 University Avenue, City of Palo Alto, County of Santa Clara, State of California. The office consists of approximately 2,975 square feet consisting of Suites 101 and 103 on the first floor of the building known as the Palo Alto Office Center. The lease is for a term of 60 months commencing on December 1, 2001 and ending on November 30, 2006. The Bank has continued this lease on a month to month basis since the lease expired. The Lease provided for a base rent of $12,198 through the first anniversary of the lease date. Effective with the first anniversary date the lease payments will be adjusted by a factor that is tied to the Consumer Price Index. Current lease payments are $16,651 per month. The foregoing description is qualified by reference to the lease agreement dated October 15, 2001 attached as exhibit 10.12 to this Report.

In addition, the Bank operates loan production offices in Redwood City, San Ramon and Fresno, California as well as Dallas, Texas and Reston, Virginia.

Item 3. Legal Proceedings

The Company is not a defendant in any pending legal proceedings and no such proceedings are known to be contemplated. No director, officer, affiliate, more than 5.0% 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 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this Annual Report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's Common Stock trades on the Nasdaq Capital Market under the symbol "BBNK". The following table summarizes those trades of which the Company has knowledge, setting forth the high and low sales prices for the periods indicated.

	Sales Price of Common Stock (1)	
Three Months Ended	Low	High
March 31, 2005	$ 14.14	$ 16.12
June 30, 2005	$ 14.35	$ 15.95
September 30, 2005	$ 15.75	$ 19.76
December 31, 2005	$ 16.25	$ 19.34
March 31, 2006	$ 17.40	$ 19.97
June 30, 2006	$ 19.00	$ 20.49
September 30, 2006	$ 19.15	$ 22.70
December 31, 2006	$ 20.10	$ 22.98

(1) Prices represent the actual trading history on the Nasdaq Capital Market. Additionally, since trading in the Company's common stock is limited, the range of prices stated is not necessarily representative of prices which would result from a more active market.

The Company had 315 shareholders of record as of December 31, 2006.

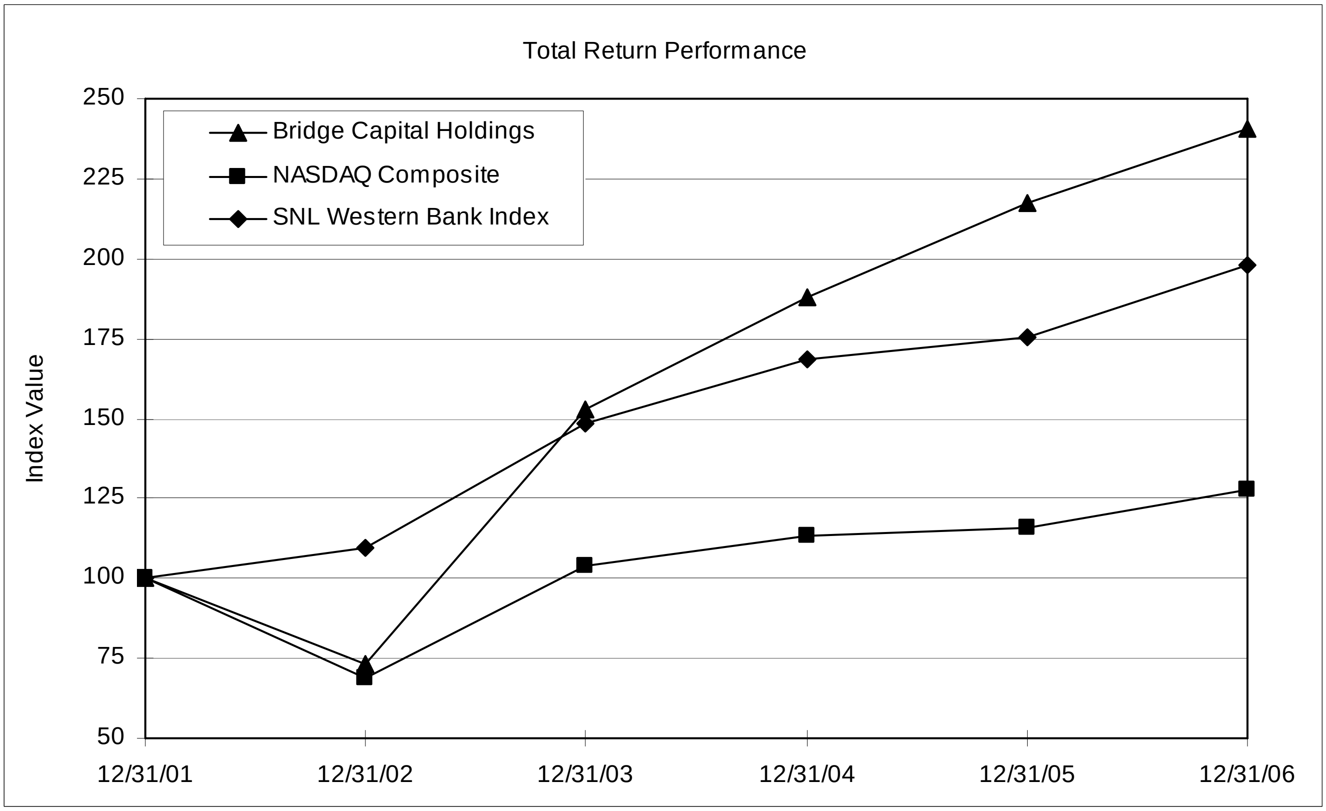
The Company's shareholders are entitled to receive dividends, when and as declared by its Board of Directors, out of funds legally available, subject to statutory and regulatory restrictions. See "SUPERVISION AND REGULATION – Payment of Dividends".

A California corporation such as Bridge Capital Holdings may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. In the event sufficient retained earnings are not available for the proposed distribution, a California corporation may nevertheless make a distribution to its shareholders if, after giving effect to the distribution, the corporation's assets equal at least 125 percent of its liabilities and certain other conditions are met. Since the 125 percent ratio is equivalent to a minimum capital ratio of 20 percent, most bank holding companies, including Bridge Bancorp based on its current projected capital ratios, are unable to meet this last test and so must have sufficient retained earnings to fund the proposed distribution.

In a policy statement, the FRB has advised bank holding companies that it believes that payment of cash dividends in excess of current earnings from operations is inappropriate and may be cause for supervisory action. As a result of this policy, banks and their holding companies may find it difficult to pay dividends out of retained earnings from historical periods prior to the most recent fiscal year or to take advantage of earnings generated by extraordinary items such as sales of buildings or other large assets in order to generate profits to enable payment of future dividends. Additionally, the FRB's position that holding companies are expected to provide a source of managerial and financial strength to their subsidiary banks potentially restricts a bank holding company's ability to pay dividends.

The Company has not declared dividends since inception of the Bank's existence. In the future, the Company may consider cash and stock dividends, subject to the restrictions on the payment of cash dividends as described above, depending upon the level of earnings, management's assessment of future capital needs and other factors considered by the Board of Directors.

The following chart reflects the total return performance of the Company's common stock for the years ended December 31, 2006, 2005, 2004, 2003, and 2002, including the performance of shares of common stock of the Bank prior to the formation of the Company as holding company for the Bank on October 1, 2004.



	Period Ended					
Index	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Bridge Capital Holdings	100.00	72.94	152.82	188.00	217.65	240.47
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
SNL Western Bank Index	100.00	109.41	148.21	168.43	175.36	197.86

Item 6. Selected Financial Data

The following table presents certain consolidated financial information concerning the business of the Company. This information should be read in conjunction with the Financial Statements and the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere herein.

(dollars in thousands, except per share data)	As of and for the year ended December 31,				
	2006	2005	2004	2003	2002
Statement of Operations Data:					
Interest income	$ 52,962	$ 34,118	$ 19,457	$ 12,133	$ 7,002
Interest expense	14,271	6,615	2,896	2,235	1,192
Net interest income	38,691	27,503	16,561	9,898	5,810
Provision for credit losses	(1,372)	(2,162)	(1,671)	(843)	(1,424)
Net interest income after provision for credit losses	37,319	25,341	14,890	9,055	4,386
Other income	3,837	4,197	3,855	2,664	1,460
Other expenses	(27,279)	(19,981)	(13,596)	(10,214)	(8,530)
Income before income taxes	13,877	9,557	5,149	1,505	(2,684)
Income taxes	(5,243)	(3,832)	(2,112)	1,868	(1)
Net income (loss)	$ 8,634	$ 5,725	$ 3,037	$ 3,373	$ (2,685)
Per Share Data:					
Basic income (loss) per share	$ 1.38	$ 0.93	$ 0.50	$ 0.56	$ (0.53)
Diluted income (loss) per share	1.27	0.85	0.46	0.53	(0.53)
Shareholders' equity per share	7.77	6.36	5.43	4.95	4.39
Cash dividend per common share	-	-	-		
Balance Sheet Data:					
Balance sheet totals:					
Assets	$721,979	$536,520	$402,037	$278,579	$181,188
Loans, net	531,956	432,667	289,467	191,053	126,345
Deposits	644,987	468,158	352,456	246,394	153,359
Shareholders' equity	49,094	39,714	33,122	29,954	26,564
Average balance sheet amounts:					
Assets	$606,506	$465,944	$341,466	$222,454	$133,830
Loans, net	458,648	348,592	240,465	156,587	86,892
Deposits	535,472	411,678	307,471	193,765	111,607
Shareholders' equity	44,646	36,017	30,768	27,075	21,126
Selected Ratios:					
Return on average equity	19.34%	15.90%	9.87%	12.46%	-12.71%
Return on average assets	1.42%	1.23%	0.89%	1.52%	-2.01%
Efficiency ratio	64.14%	63.03%	66.59%	81.31%	117.33%
Risk based capital ratio	11.74%	11.58%	13.77%	14.68%	20.39%
Net chargeoffs (recoveries) to average gross loans	0.00%	0.06%	0.08%	-0.50%	0.20%
Allowance for loan losses to total gross loans	1.36%	1.35%	1.41%	1.38%	1.37%
Average equity to average assets	7.36%	7.73%	9.01%	12.17%	15.79%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Please see "Forward-Looking Statements" on page 2. Therefore, the information set forth therein should be carefully considered when evaluating business prospects of the Company.

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported. Accounting policies are described in detail in Note 1 to the Consolidated Financial Statements. 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 procedures that are intended to ensure 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, economic conditions, historical loss experience, and 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.

Sale of SBA Loans

In calculating gain on the sale of SBA loans, the Bank performs an allocation based on the relative fair values of the sold portion and retained portions of the loan. The company 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.

Deferred Tax Assets

Our deferred tax assets are explained in Note 8 to the Consolidated Financial Statements. The Company has sufficient taxable income from current and prior periods to support our position that the benefit of our deferred tax assets will be realized. As such, we have provided no valuation allowance against our deferred tax assets.

Operating Results

For the year ended December 31, 2006, the Company reported net income of $8.6 million or $1.38 basic and $1.27 diluted earnings per share, compared with net income of $5.7 million or $0.93 basic and $0.85 diluted earnings per share for the year ended December 31, 2005 and $3.0 million or $0.50 basic and $0.46 diluted earnings per share for the year ended December 31, 2004. The improvement in net income for 2006 resulted primarily from an increase of $11.2 million in net interest income and by a decrease of $800,000 in provision for credit losses, offset, in part, by an increase of $7.3 million in other expense. See the specific sections below for details regarding these changes.

Net income for 2005 represented an increase of $2.7 million compared to 2004 primarily due to an increase of $10.9 million in net interest income, offset, in part, by an increase of $0.5 million in provision for credit losses and $6.4 million in other expense.

Net Interest Income and Margin

Net interest income is the principal source of the Company's operating earnings. Net interest income is affected by changes in the nature and volume of earning assets held during the year, the rates earned on such assets and the rates paid on interest-bearing liabilities. The following table shows the composition of average earning assets and average funding sources, average yields and rates, and the net interest margin for the three years ended December 31, 2006, 2005 and 2004.

(dollars in thousands)

	Year Ended December 31,								
	2006			2005			2004		
	Average Balance	Interest Income/ Expense	Yields/ Rates	Average Balance	Interest Income/ Expense	Yields/ Rates	Average Balance	Interest Income/ Expense	Yields/ Rates
Assets									
Interest earning assets (2):									
Loans (1)	$466,529	$ 48,248	10.3%	$354,552	$ 31,983	9.0%	$244,600	$ 18,378	7.5%
Federal funds sold	78,946	3,990	5.1%	52,234	1,703	3.3%	43,000	546	1.3%
Investment securities	17,523	724	4.1%	18,712	432	2.3%	30,002	533	1.8%
Total earning assets	562,998	52,962	9.4%	425,498	34,118	8.0%	317,602	19,457	6.1%
Noninterest earning assets:									
Cash and due from banks	27,748			27,767			18,272		
All other assets (3)	15,760			12,679			5,592		
TOTAL	$606,506			$465,944			$341,466		
Liabilities and shareholders' equity									
Interest-bearing liabilities:									
Deposits:									
Demand	$ 3,902	34	0.9%	$ 3,363	25	0.7%	$ 3,543	21	0.6%
Savings	261,251	8,858	3.4%	193,088	4,192	2.2%	138,776	1,833	1.3%
Time	99,924	4,290	4.3%	56,183	1,657	2.9%	47,008	1,020	2.2%
Other	19,106	1,089	5.7%	13,426	741	5.5%	361	22	6.1%
Total interest-bearing Liabilities	384,183	14,271	3.7%	266,060	6,615	2.5%	189,688	2,896	1.5%
Noninterest-bearing liabilities:									
Demand deposits	170,395			159,044			118,144		
Accrued expenses and other liabilities	7,282			4,823			2,866		
Shareholders' equity	44,646			36,017			30,768		
TOTAL	$606,506			$465,944			$341,466		
Net interest income and margin		$38,691	6.9%		$27,503	6.5%		$16,561	5.2%

1) Includes amortization of loan fees of $4.2 million for 2006, $3.5 million for 2005 and $2.0 million for 2004. Nonperforming loans have been included in average loan balances.

2) Interest income is reflected on an actual basis, not on a fully taxable equivalent basis. Yields are based on amortized cost.

3) Net of average allowance for credit losses of $6.5 million and average deferred loan fees of $1.4 million for 2006, average allowance for credit losses of $4.9 million and deferred loan fees of $1.1 million for 2005 and average allowance for credit losses of $3.3 million and deferred loan fees of $787,000 for 2004.

Interest differential is affected by changes in volume, changes in rates and a combination of changes in volume and rates. Volume changes are caused by changes in the levels of average earning assets and average interest bearing deposits and borrowings. Rate changes result from changes in yields earned on assets and rates paid on liabilities. Changes not solely attributable to volume or rates have been allocated to the rate component.

The following table shows the effect on the interest differential of volume and rate changes for the years ended December 31, 2006, 2005 and 2004:

(dollars in thousands)	Year Ended December 31,					
	2006 vs. 2005			2005 vs. 2004		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	Average Volume	Average Rate	Total Change	Average Volume	Average Rate	Total Change
Interest income:						
Loans	$11,581	$ 4,684	$16,265	$ 9,919	$ 3,686	$13,605
Federal funds sold	1,350	937	2,287	301	856	1,157
Investment securities	(49)	341	292	(261)	160	(101)
Total interest income	12,882	5,962	18,844	9,959	4,702	14,661
Interest expense:						
Demand	5	4	9	(1)	5	4
Savings	2,312	2,354	4,666	1,180	1,179	2,359
Time	1,878	755	2,633	271	366	637
Other	324	24	348	722	(2)	719
Total interest expense	4,518	3,138	7,656	2,170	1,549	3,719
Change in net interest income	$ 8,363	$ 2,824	$11,188	$ 7,789	$ 3,153	$10,942

Net interest income was $38.7 million in 2006, comprised of $53.0 million in interest income and $14.3 million in interest expense. Net interest income in 2005 was 27.5 million, comprised of $34.1 million in interest income and $6.6 million in interest expense. The increase of $11.2 million in net interest income in 2006 was primarily due to an increase of $18.9 million in interest income offset, in part, by an increase of $7.7 million in interest expense.

Net interest income for the year ended December 31, 2005 represented an increase of $10.9 million over $16.6 million for the year ended December 31, 2004. The increase in net interest income was primarily a result of an increase of $14.6 million in interest income offset, in part, by an increase of $3.7 million in interest expense.

The net interest margin (net interest income divided by average earning assets) was 6.9% for the year ended December 31, 2006, as compared to 6.5% for the year ended December 31, 2005 and 5.2% for 2004. The improvement in net interest margin in 2006 compared to 2005 was primarily the result of increases in the prime rate during the year, a shift in the mix of loans toward higher yielding product lines and an increase in Federal funds sold. The improvement in net interest margin in 2005 compared to 2004 was primarily the result of increases in the prime rate and a shift in the mix of loans toward higher yielding product lines. Average loans represented 82.9% of average earning assets in 2006 compared to 83.3% in 2005 and 77.0% in 2004. In addition, in 2006 the Bank's ratio of average loans to average deposits was 87.1%, up from 86.1% in 2005 and 79.6% in 2004.

Significant factors affecting net interest income are: rates, volumes, and mix of the loan, investment and deposit portfolios. Due to the nature of the Bank's lending markets, in which the majority of loans are generally tied to Prime Rate, we believe that an increase in interest rates should positively affect the Bank's future earnings, while a decline will 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

For the year ended December 31, 2006, the Company reported interest income of $53.0 million, an increase of $18.9 million or 55.4% over $34.1 million reported in 2005. The increase in interest income primarily reflects an increase in the volume of average earning assets in 2006 compared to 2005. Average earning assets were $563.0 million for the year ended December 31, 2006 an increase of $137.5 million or 32.3% over $425.5 million for the year ended December 31, 2005. In addition, the majority of the Bank's earning assets have rate structures that re-price with movements in short-term interest rates, primarily the prime rate and fed funds rate. During 2006, each of these indices increased by 100 basis points.

For the year ended December 31, 2005, the Company reported interest income of $34.1 million, an increase of $14.6 million or 74.9% over $19.5 million reported in 2004. The increase in interest income primarily reflects an increase in the volume of average earning assets in 2005 compared to 2004. Average earning assets were $425.5 million for the year ended December 31, 2005 an increase of $107.9 million or 34.0% over $317.6 million for the year ended December 31, 2004. In addition, the majority of the Bank's earning assets have rate structures that re-price with movements in short-term interest rates, primarily the prime rate and fed funds rate. During 2005, each of these indices increased by 200 basis points.

Interest Expense

Interest expense was $14.3 million for the year ended December 31, 2006, which represented an increase of $7.7 million or 116.7% compared to $6.6 million for the year ended December 31, 2005. The increase in interest expense reflects an increase in the rate on and volume of average interest-bearing liabilities in 2006 compared to 2005. Average interest-bearing liabilities were $384.2 million for the year ended December 31, 2006, an increase of $118.1 million or 44.4% from $266.1 million for the year ended December 31, 2005.

Interest expense was $6.6 million for the year ended December 31, 2005, which represented an increase of $3.7 million or 127.6% compared to $2.9 million for the year ended December 31, 2004. The increase in interest expense primarily reflects an increase in average interest-bearing liabilities in 2005 compared to 2004. Average interest-bearing liabilities were $266.1 million for the year ended December 31, 2005, an increase of $76.4 million or 40.3% from $189.7 million for the year ended December 31, 2004.

Credit Risk and Provision for Credit Losses

The Bank maintains an allowance for credit losses which is based, in part, on the loss experience of the Bank and the California banking industry, the impact of economic conditions within the Bank's market area, and, as applicable, the State of California, 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. Based on management's evaluation of such risks, additions of $1.4 million, $2.2 million and $1.7 million were made to the allowance for credit losses in 2006, 2005 and 2004, respectively. During 2006, the Bank had no charge offs and had recoveries of $21,000 as compared to $384,000 in charge offs and $12,000 in recoveries in 2005 and $240,000 in charge offs and $32,000 in recoveries in 2004. The allowance for credit losses was $7.3 million representing 1.36% of total loans at December 31, 2006 as compared to $5.9 million representing 1.35% of total loans at December 31, 2005 and $4.1 million representing 1.41% of total loans at December 31, 2004.

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. There were two non-accrual loans at December 31, 2006 totaling $437,000 as compared to one non-accrual loan at December 31, 2005 totaling $2.3 million and two non-accrual loans totaling $1.0 million at December 31, 2004. At December 31, 2006, the two non-accrual loans consisted of commercial loans secured by business assets and real property with values in excess of the loan's carrying value.

In addition, at December 31, 2006, 2005 and 2004, there were no loans past due 90 days or more as to principal or interest and still accruing interest.

At December 31, 2006, 2005 and 2004 there were no properties owned by the Bank acquired through the foreclosure process.

Management is of the opinion that the allowance for credit losses is maintained at a level adequate for inherent losses in the loan portfolio. However, the Bank's loan portfolio, which includes approximately $219.0 million in real estate loans, representing approximately 40.5% of the portfolio, could be adversely affected if California economic conditions and the real estate market in the Bank'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 ("OREO") and the level of the allowance for loan losses, which could adversely affect the Bank'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 years ended December 31, 2006, 2005 and 2004:

(dollars in thousands)	Year Ended December 31,					
	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Gain on sale of SBA loans	$ 1,320	34.4%	$ 2,290	54.6%	$ 2,737	71.0%
SBA loan servicing income	548	14.3%	528	12.6%	358	9.3%
Depositor service charges	498	13.0%	354	8.4%	362	9.4%
Increase in value of life insurance	320	8.3%	377	9.0%	181	4.7%
International fee income	234	6.1%	86	2.0%	-	0.0%
Other operating income	917	23.9%	562	13.4%	217	5.6%
	$ 3,837	100.0%	$ 4,197	100.0%	$ 3,855	100.0%

Non-interest income totaled $3.8 million in 2006, a decrease of $400,000 or 9.5% over $4.2 million in 2005. Non-interest income increased $342,000, or 8.9% from 2004 to 2005. Non-interest income consists primarily of gains recognized on sales of SBA loans, SBA loan servicing income and service charge income on deposit accounts. The decrease in non-interest income in 2006 compared to 2005 was primarily due to decreased SBA loan sales, partially offset by increases in depositor service charges, international fee income, the amortization of the SBA valuation allowance, and warrant income. The increases in non-interest income in 2005 compared to 2004 are primarily due to increased SBA loan servicing income and an increase in the value of Bank owned life insurance, offset by a decrease in gains recognized on sale of SBA loans.

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) adjustment of programs by the SBA; (4) changes in activities of secondary market participants and; (5) other factors. Gains recognized on sales of SBA loans were $1.3 million in 2006 which represented a decrease of $1.0 million or 43.5% compared to $2.3 million the same period one year earlier. The decrease was attributed to a lower volume of loans sold during the year as a result of the cyclical impact of increased competition from mortgage lenders together with the inversion of the yield curve. During 2006 the Company's SBA group funded $66.3 million in new loans and sold $51.4 million which compared to $69.8 million funded and $66.6 million sold in 2005 and $84.9 million funded and $68.4 million sold in 2004.

Non-interest Expenses

The components of other expense are set forth in the following table for the years ended December 31, 2006, 2005 and 2004.

Other Expense as a Percent of Average Assets

(dollars in thousands)	Year Ended December 31,					
	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Salaries and benefits	$17,417	2.9%	$12,127	2.6%	$ 8,081	2.4%
Occupancy	2,132	0.4%	1,652	0.4%	1,420	0.4%
Data processing	1,528	0.3%	1,085	0.2%	763	0.2%
Third party services	925	0.2%	1,065	0.2%	95	0.0%
Marketing and advertising	1,081	0.2%	925	0.2%	612	0.2%
Professional services	825	0.1%	746	0.2%	645	0.2%
Furniture and equipment	701	0.1%	583	0.1%	585	0.2%
Deposit services/supplies	525	0.1%	401	0.1%	311	0.1%
Other	2,145	0.4%	1,397	0.3%	1,084	0.3%
	$27,279	4.5%	$19,981	4.3%	$13,596	4.0%

Non-interest expenses were $27.3 million in 2006 as compared to $20.0 million in 2005 and $13.6 million in 2004. Non-interest expense increased approximately $7.3 million in 2006 compared to 2005. This increase was primarily attributable to increased salaries and benefits cost, occupancy cost, data services, director and shareholder cost, and loan related charges. Non-interest expenses increased approximately $6.4 million for the year ended December 31, 2005 compared to 2004. This increase was primarily attributable to increased salaries and benefits cost and third party services. Non-interest expenses measured as a percentage of average assets were 4.5% in 2006, as compared to 4.3% in 2005 and 4.0% in 2004.

The increases in non-interest expenses reflect the impact of expansion of the business during 2006, 2005 and 2004. During 2006, the Bank opened loan production offices in Dallas, Texas and Reston, Virginia. During 2005, the Bank launched a technology banking division and opened a loan production office in San Ramon, California to serve the East Bay region. During 2004, the Bank consolidated offices and moved its headquarters to a larger facility in San Jose, California; launched two new product lines, international trade finance and investment services; and added an SBA loan production office in Fresno, California.

Salaries and related benefits is the largest component of the Bank's non-interest expense. Salaries and benefits were $17.4 million for the year ended December 31, 2006 as compared to $12.1 million and $8.1 million for the years ended December 31, 2005 and 2004, respectively. The increases in 2006 compared to 2005, and 2005 compared to 2004 are primarily attributable to the increase in full time equivalent employees (FTE) related to expansion of the business and to higher incentive compensation related to performance of the Bank. The Bank had 134 FTE at December 31, 2006 as compared to 103 FTE at December 31, 2005 and 80 FTE at December 31, 2004.

Occupancy expense for the year ended December 31, 2006 was $2.1 million and represented an increase of approximately $400,000 over $1.7 million for the prior year. The increase was primarily due to additional rent expense related to the facility at 55 Almaden Boulevard, San Jose, California and the addition of a loan production office in the technology banking and asset-based lending groups. Occupancy expense for the year ended December 31, 2005 was $1.7 million and represented an increase of $232,000 over $1.4 million for the prior year. The increase in occupancy expense in 2005 is primarily due to expense related to the facility at 55 Almaden Blvd, San Jose, California and the new facility at 2010 Crow Canyon Place, Suite 100 San Ramon, California.

The Company contracts with third-party vendors for most data processing needs and to support technical infrastructure. Data processing expense in 2006 was $1.5 million which represented an increase of approximately $400,000 over $1.1 million one year earlier. In 2005, data processing costs increased $322,000 to $1.1 million compared to $763,000 in 2004. The increases in data processing in both years are primarily due to increases in deposit transaction volumes in addition to increases in FTE.

Legal and professional expenses were $825,000 for the year ended December 31, 2006 which represented an increase of $79,000 over $746,000 in 2005. The increase in 2006 was primarily due to increases in ongoing accounting and auditing services. Legal and professional expenses for the year ended December 31, 2005 represented an increase of $101,000 over $645,000 in 2004. The increase in 2005 was due, in part, to nonrecurring legal costs related to expansion of business lines as well as increases in ongoing accounting and audit services.

Furniture, fixtures and equipment (FF&E) expense of $701,000 for the year ended December 31, 2006 represented an increase of $118,000 compared to $583,000 in the same period one year earlier. The increase in 2006 was primarily related to the increase in FTE. FF&E expense of $583,000 for the year ended December 31, 2005 represented a slight decrease of $2,000 compared to $585,000 in the same period one year earlier. The decrease in 2005 was due primarily to a decrease in depreciation expense as a result of fully depreciated assets, offset, in part, by purchase of new FF&E related to the increase in FTE.

As pressure continues on net interest margins and net asset growth, management of operating expenses will continue to be a priority.

Income Taxes

The Company's effective tax rate was 37.8% for the year ended December 31, 2006, 40.1% for the year ended December 31, 2005 and 41.0% for the year ended December 31, 2004. See Note 8 to the financial statements for additional information on income taxes.

Quarterly Income

The unaudited income statement data of the Bank, in the opinion of management, includes all normal and recurring adjustments necessary to state fairly the information set forth herein. The results of operations are not necessarily indicative of results for any future period. The following table shows the Bank's unaudited quarterly income statement data for the years 2006, 2005, and 2004.

(dollars in thousands, except share amounts)	Three Months Ended			
	March 31	June 30	September 30	December 31
Year Ended December 31, 2006:				
Interest income	$10,928	$12,479	$14,329	$15,226
Interest expense	2,386	3,221	4,239	4,425
Net interest income	8,542	9,258	10,090	10,801
Provision for credit losses	222	450	100	600
Other income	1,083	1,078	799	877
Other expense	6,338	6,630	7,066	7,245
Income before income taxes	3,065	3,256	3,723	3,833
Income taxes	1,134	1,237	1,415	1,457
Net income	$1,931	$2,019	$2,308	$2,376
Earnings per share - basic	$0.31	$0.32	$0.37	$0.38
Earnings per share - diluted	$0.29	$0.29	$0.34	$0.35
Year Ended December 31, 2005:				
Interest income	$6,615	$7,915	$9,173	$10,415
Interest expense	1,188	1,637	1,749	2,041
Net interest income	5,427	6,278	7,424	8,374
Provision for credit losses	333	429	800	600
Other income	784	1,136	994	1,283
Other expense	4,315	4,642	5,123	5,901
Income before income taxes	1,563	2,343	2,495	3,156
Income taxes	606	964	990	1,272
Net income	$957	$1,379	$1,505	$1,884
Earnings per share - basic	$0.16	$0.22	$0.24	$0.31
Earnings per share - diluted	$0.14	$0.21	$0.22	$0.28
Year Ended December 31, 2004:				
Interest income	$3,873	$4,397	$5,154	$6,033
Interest expense	682	655	684	875
Net interest income	3,191	3,742	4,470	5,158
Provision for credit losses	405	369	611	286
Other income	1,122	779	834	1,120
Other expense	3,115	3,094	3,308	4,079
Income before income taxes	793	1,058	1,385	1,913
Income taxes	327	434	568	783
Net income	$466	$624	$817	$1,130
Earnings per share - basic	$0.08	$0.10	$0.13	$0.19
Earnings per share - diluted	$0.07	$0.09	$0.12	$0.18

FINANCIAL CONDITION AND EARNING ASSETS

As of December 31, 2006, assets were $722.0 million, gross loans were $540.8 million and deposits were $645.0 million. Assets increased $185.5 million, a 34.6% increase from $536.5 million at December 31, 2005. Gross loans increased $100.8 million, or 22.9% from $440.0 million at December 31, 2005. Deposits increased $176.8 million, a 37.8% increase from $468.2 million at December 31, 2005.

As of December 31, 2005, assets were $536.5 million, gross loans were $440.0 million and deposits were $468.2 million. Assets increased $134.5 million, a 33.5% increase from $402.0 million at December 31, 2004. Gross loans increased $145.4 million, or 49.4% from $294.6 million at December 31, 2004. Deposits increased $115.7 million, a 32.8% increase from $352.5 million at December 31, 2004.

Federal Funds Sold

Federal funds sold were $93.8 million at December 31, 2006 as compared to $46.7 million at December 31, 2005. This increase is primarily due to an increase in short term deposits, primarily in the savings and money market category. The average balance of federal funds sold was $78.9 million in 2006 and $52.2 million in 2005. These balances represented 14.7% and 12.7% of average deposits for 2006 and 2005, respectively. They are maintained primarily for the short-term liquidity needs of the Bank.

Securities

The following table shows the composition of the securities portfolio at December 31, 2006, 2005 and 2004.

(dollars in thousands)	As of December 31,					
	2006		2005		2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. treasury	$ 200	$ 200	$ 199	$ 199	$ 100	$ 100
U.S. government agencies	43,815	43,733	12,355	12,184	26,400	26,198
Total securities available for sale	44,015	43,933	12,554	12,383	26,500	26,298
Total investment securities	$44,015	$43,933	$12,554	$12,383	$26,500	$26,298

The maturities and yields of the investment portfolio are shown below:

(dollars in thousands)	Amortized Cost	Due in one year or less: Amount	Due in one year or less: Weighted Average Yield	Due after one year through five years: Amount	Due after one year through five years: Weighted Average Yield
As of December 31, 2006:					
U.S. treasury	$ 200	$ 100	4.3%	$ 100	4.3%
U.S. government agencies	43,815	16,942	4.0%	26,873	4.8%
Total investment securities	$44,015	$ 17,042	4.0%	$26,973	4.8%
As of December 31, 2005:					
U.S. treasury	$ 199	$ 199	3.4%	$ -	-
U.S. government agencies	12,355	10,337	2.4%	2,018	3.1%
Total investment securities	$12,554	$ 10,536	2.4%	$ 2,018	3.1%

Investment securities are classified as available for sale. Any unrealized gain or loss on investment securities available for sale is reflected in the carrying value of the security and reported net of income taxes in the equity section of the balance sheet. The pre-tax unrealized loss on securities available for sale at December 31, 2006 was ($82,000) as compared to ($102,000) at December 31, 2005 and (119,000) at December 31, 2004.

Loan Portfolio

The following table shows the Bank's loans by type and their percentage distribution for the five years ended December 31, 2006, 2005, 2004, 2003 and 2002.

(dollars in thousands)	As of December 31,				
	2006	2005	2004	2003	2002
Commercial	$197,174	$182,396	$100,681	$ 73,846	$ 50,235
Real estate construction	103,710	84,792	42,323	35,065	32,613
Real estate other	115,313	83,748	80,044	28,036	16,804
SBA	59,888	46,867	45,251	39,412	24,314
Factoring and asset based lending	56,924	38,184	22,342	13,106	1,537
Other	7,771	4,011	3,945	4,984	3,200
Total gross loans	540,780	439,998	294,586	194,449	128,703
Unearned fee income	(1,495)	(1,395)	(973)	(713)	(593)
Total loan portfolio	$539,285	$438,603	$293,613	$193,736	$128,110
Commercial	36.5%	41.5%	34.2%	38.0%	39.0%
Real estate construction	19.2%	19.3%	14.3%	18.0%	25.3%
Real estate other	21.3%	19.0%	27.2%	14.4%	13.1%
SBA	11.1%	10.7%	15.4%	20.3%	18.9%
Factoring and asset based lending	10.5%	8.7%	7.6%	6.7%	1.2%
Other	1.4%	0.9%	1.3%	2.6%	2.5%
Total gross loans	100.0%	100.0%	100.0%	100.0%	100.0%

Gross loan balances increased to $540.8 million at December 31, 2006, which represented an increase of $100.8 million or 22.9% as compared to $440.0 million at December 31, 2005. The increase in loans was primarily in commercial and real estate term (includes longer term real estate loans, land loans and home equity lines), without a concentration in any one specific category of loans. The increase was a result of general marketing efforts. Gross loan balances increased to $440.0 million at December 31, 2005, which represented an increase of $145.0 million or 49.4% as compared to $294.6 million at December 31, 2004. The increase in loans was primarily in commercial and real estate term, without a concentration in any one specific category of loans. The increase was a result of general marketing efforts.

The Bank's commercial loan portfolio represents loans to small and middle-market businesses primarily in the Santa Clara county region. Commercial loans were $197.2 million at December 31, 2006, which represented an increase of $14.8 million or 8.1% over $182.4 million at December 31, 2005. At December 31, 2006, commercial loans comprised 36.5% of total loans outstanding as compared to 41.5% at December 31, 2005. Commercial loans were $182.4 million at December 31, 2005, which represented an increase of $81.7 million or 81.2% over $100.7 million at December 31, 2004. At December 31, 2005, commercial loans comprised 41.5% of total loans outstanding as compared to 34.2% at December 31, 2004.

In March of 2002, the Bank established an SBA lending group in Santa Clara with a loan production office in Sacramento County. In October of 2003, the Bank established a loan production office in the San Diego county region. The Bank, 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 70% to 90% of the total loan. In addition, the loan could be collateralized by a deed of trust on real estate.

Under the 504 program, the Bank lends directly to the borrower and takes a first deed of trust to the subject property. In addition the SBA, through a Community Development Corporation makes an additional loan to the borrower and takes a deed of trust subject to the Bank's position. The Bank's position in relation to the real estate "piggyback" loans can range from 50% to 70% loan to value.

At December 31, 2006, SBA loans comprised $59.9 million or 11.1% of total loans as compared to $46.9 million or 10.7% of total loans at December 31, 2005 and $45.3 million or 15.4% of total loans at December 31, 2004. The Bank has 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 December 31, 2006, 2005 and 2004, the fair value of SBA loans exceeded aggregate cost and therefore, SBA loans were carried at aggregate cost.

The Bank'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 $18.9 million, or 22.3%, to $103.7 million at December 31, 2006 as compared to $84.8 million at December 31, 2005. Construction loan balances at December 31, 2006 comprised 19.2% of total loans as compared to 19.3% at December 31, 2005. Construction loans increased $42.5 million, or 100.3%, to $84.8 million at December 31, 2005 as compared to $42.3 million at December 31, 2004. Construction loan balances at December 31, 2005 comprised 19.3% of total loans as compared to 14.3% at December 31, 2004.

Other real estate loans consist of commercial real estate, land loans related to future construction credits and home equity lines of credit. Other real estate loans increased $31.6 million or 37.8% to $115.3 million at December 31, 2006 as compared to $83.7 million at December 31, 2005. The increase was primarily attributable to other real estate term loans. Other real estate loans increased $3.7 million or 4.6% to $83.7 million at December 31, 2005 as compared to $80.0 million at December 31, 2004. In 2005, the increase was primarily in other real estate term loans. At December 31, 2006, other real estate loans represented 21.3% of total loans as compared to 19.0% at December 31, 2005 and 27.2% at December 31, 2004.

Factoring and asset-based lending represents purchased accounts receivable (factoring) and a structured accounts receivable lending program where the Bank receives client specific payment for client invoices. Under the factoring program, the Bank purchases accounts receivable invoices from its clients and then receives payment directly from the party obligated for the receivable. In most cases the Bank purchases the receivables subject to recourse from the Bank's factoring client. The asset-based lending program requires a security interest in all of a client's accounts receivable. At December 31, 2006, factoring and asset based loans totaled $56.9 million or 10.5% of total loans as compared to $38.2 million or 8.7% of total loans at December 31, 2005.

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 December 31, 2006, other loans totaled $7.8 million as compared to $4.0 million at December 31, 2005 and $3.9 million at December 31, 2004.

Allowance for Loan Losses

A consequence of lending activities is the potential for loss. The amount of such losses will vary from time to time depending upon the risk characteristics of the loan portfolio as affected by economic conditions, rising interest rates and the financial experience of the borrowers. The allowance for loan losses, which provides for the risk of losses inherent in the credit extension process, is increased by the provision for loan losses charged to expense and decreased by the amount of charge-offs net of recoveries. There is no precise method of estimating specific losses or amounts that ultimately may be charged off on particular segments of the loan portfolio. Similarly, the adequacy of the allowance for loan losses and the level of the related provision for loan losses is determined in management's judgment based on consideration of:

- Economic conditions
- Borrowers' financial condition
- Loan impairment
- Evaluation of industry trends
- Historic losses, migrations and delinquency trends
- Industry and other concentrations
- Loans which are contractually current as to payment terms but demonstrate a higher degree of risk as identified by management
- Continuing evaluation of the performing loan portfolio
- Periodic review and evaluation of problem loans
- Off balance sheet risks

- Assessments by regulators and other third parties

In addition to the internal assessment of the loan portfolio, the Bank also retains a consultant who performs credit reviews on a regular basis and then provides an assessment of the adequacy of the allowance for loan losses. The federal banking regulators also conduct examinations of the loan portfolio periodically.

The following table summarizes the activity in the allowance for loan losses.

(dollars in thousands)	Year ended December 31,				
	2006	2005	2004	2003	2002
Balance, beginning of period	$ 5,936	$ 4,146	$ 2,683	$ 1,765	$ 511
Loans charged off by category:					
Commercial and other	-	384	240	-	170
Real estate construction	-	-	-	-	-
Real estate other	-	-	-	-	-
Factoring and asset-based lending	-	-	-	-	-
Consumer	-	-	-	10	-
Total charge-offs	-	384	240	10	170
Recoveries by category:					
Commercial and other	21	12	32	85	-
Real estate construction	-	-	-	-	-
Real estate other	-	-	-	-	-
Factoring and asset-based lending	-	-	-	-	-
Consumer	-	-	-	-	-
Total recoveries	21	12	32	85	-
Net (recoveries) charge-offs	(21)	372	208	(75)	170
Provision charged to expense	1,372	2,162	1,671	843	1,424
Balance, end of year	$ 7,329	$ 5,936	$ 4,146	$ 2,683	$ 1,765
Ratio of net charge-offs during the period to average gross loans outstanding	0.00%	0.06%	0.08%	-0.05%	0.20%
Ratio of allowance for credit losses to gross loans outstanding at end of year	1.36%	1.35%	1.41%	1.38%	1.37%
Allowance to nonperforming loans at end of year	1677.12%	255.87%	404.09%	4547.46%	0.00%

Based on an evaluation of the individual credits, historical credit loss experienced by loan type and economic conditions, management has allocated the allowance for loan losses as follows for the five years ended December 31:

(dollars in thousands)	As of December 31,				
	2006	2005	2004	2003	2002
Commercial and other	1,831	2,029	998	666	771
SBA	1,803	1,975	1,231	1,042	198
Real estate construction	1,082	742	444	400	410
Real estate other	1,152	721	1,132	288	359
Factoring / asset based lending	1,415	443	312	261	-
Other	46	26	29	26	27
	$ 7,329	$ 5,936	$ 4,146	$ 2,683	$ 1,765

Commercial and other	25.0%	34.2%	24.1%	24.8%	43.7%
SBA	24.6%	33.3%	29.7%	38.8%	11.2%
Real estate construction	14.8%	12.5%	10.7%	14.9%	23.2%
Real estate other	15.7%	12.1%	27.3%	10.7%	20.3%
Factoring / asset based lending	19.3%	7.5%	7.5%	9.7%	0.0%
Other	0.6%	0.4%	0.7%	1.0%	1.5%
	100.0%	100.0%	100.0%	100.0%	100.0%

Risk Elements

Loans for which the accrual of interest has been suspended, restructured loans, and other loans with principal or interest contractually past due 90 days or more as set forth in the following table as of December 31 of each year:

	As of December 31,				
(dollars in thousands)	2006	2005	2004	2003	2002
Loans accounted for on a non-accrual basis	$ 437	$ 2,320	$ 1,026	$ 59	$ -
Loans restructured and in compliance with modified terms	-	-	-	-	-
Other loans with principal or interest contractually past due 90 days or more	-	-	-	-	-
	$ 437	$ 2,320	$ 1,026	$ 59	$ -

There were two loans on non-accrual at December 31, 2006 totaling $437,000, one non-accrual loan at December 31, 2005 totaling $2.3 million, and two non-accrual loans at December 31, 2004 totaling $1.0 million. At December 31, 2006, the two non-accrual loans consisted of commercial loans secured by business assets and real property with values in excess of the carrying value of the loans. At December 31, 2005, the non-accrual loans consisted of one commercial loan secured by business assets and real property with values in excess of the carrying value of the loan. At December 31, 2004, the non-accrual loans consisted of two SBA loans of which $712,000 was guaranteed by the U.S. Government. The remaining balance of $314,000 was secured by business assets and real property. Of the two loans on non-accrual at December 31, 2004, one loan was determined to be impaired and its carrying value reflects the fair value of the collateral securing the loan.

Income on such loans is only recognized to the extent that cash is received and where the future collection of principal is probable. Accrual of interest is resumed only when principal and interest are brought fully current and when such loans are considered to be collectible as to both principal and interest.

At December 31, 2006, 2005, and 2004, there were no loans past due 90 days or more as to principal or interest and still accruing interest.

Funding

Deposits represent the Bank's principal source of funds. Most of the Bank's deposits are obtained from professionals, small- to medium sized businesses and individuals within the Bank's market area. The Bank'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 December 31, 2006, 2005 and 2004.

(dollars in thousands)	As of December 31,					
	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Noninterest-bearing demand	$198,639	30.80%	$185,557	39.64%	$126,895	36.00%
Interest-bearing demand	3,901	0.60%	2,866	0.61%	3,946	1.12%
Money market and savings	333,838	51.76%	210,011	44.86%	169,801	48.18%
Certificates of deposit:						
Less than $100	28,918	4.48%	19,228	4.11%	16,182	4.59%
$100 and more	79,691	12.36%	50,496	10.79%	35,632	10.11%
Total deposit portfolio	$644,987	100.00%	$468,158	100.00%	$352,456	100.00%

Deposits increased $176.8 million or 37.8% from $468.2 million at December 31, 2005 to $645.0 million at December 31, 2006. The increase in deposits was primarily in non-interest bearing demand, money market and certificates of deposit raised from the Bank's primary market in Santa Clara County. The increase can be attributed to marketing efforts from the Bank's main office in San Jose and branch office in Palo Alto and certificates of deposit raised from institutions in order to manage balance sheet liquidity. Deposits at December 31, 2006 included $27.3 million, or 4.2% of the total, in title and escrow company account balances compared to $70.6 million, or 15.1% at December 31, 2005 and $55.3 million, or 15.6% at December 31, 2004. Excluding title and escrow company account balances, deposits increased $220.1 million or 47.0% compared to December 31, 2005, and increased $100.4 million or 33.8% from 2004 to 2005.

Capital Resources

The Company's capital resources consist of shareholders' equity, trust preferred securities and (for regulatory purposes) the allowance for credit losses (subject to limitations). At December 31, 2006, the Company's capital resources increased $16.7 million to $74.2 million from $57.5 million at December 31, 2005. Tier 1 capital increased $14.9 million to $66.5 million primarily due to net income of $8.6 million and issuance of additional trust preferred securities. Tier 2 capital increased $1.8 million primarily due to the increase in the allowance for credit losses of $1.4 million.

The Company is subject to capital adequacy guidelines issued by the Board of Governors and the OCC. The Company is required to maintain total capital equal to at least 8.0% of assets and commitments to extend credit, weighted by risk, of which at least 4.0% must consist primarily of common equity including retained earnings (Tier 1 capital) and the remainder may consist of subordinated debt, cumulative preferred stock or a limited amount of allowance for credit losses. Certain assets and commitments to extend credit present less risk than others and will be assigned to lower risk-weighted categories requiring less capital allocation than the 8.0% total ratio. For example, cash and government securities are assigned to a 0.0% risk-weighted category, most home mortgage loans are assigned to a 50.0% risk-weighted category requiring a 4.0% capital allocation and commercial loans are assigned to a 100.0% risk-weighted category requiring an 8.0% capital allocation. As of December 31, 2006, the Company's and the Bank's total risk-based capital ratios were 11.7% and 11.3%, respectively, (11.6% for the Company and 11.7% for the Bank at December 31, 2005).

The following table reflects the Company's Leverage, Tier 1 and total risk-based capital ratios for the period ended December 31, 2006 and 2005.

(dollars in thousands)	As of December 31,			
	2006		2005	
	Amount	Ratio	Amount	Ratio
Company Capital Ratios				
Tier 1 Capital	$ 66,533	10.52%	$ 51,593	10.38%
(to Risk Weighted Assets)				
Tier 1 capital minimum requirement	$ 25,293	4.00%	$ 19,879	4.00%
Total Capital	$ 74,229	11.74%	$ 57,529	11.58%
(to Risk Weighted Assets)				
Total capital minimum requirement	$ 50,587	8.00%	$ 39,758	8.00%
Company leverage				
Tier 1 Capital	$ 66,533	10.97%	$ 51,593	11.07%
(to Average Assets)				
Total capital minimum requirement	$ 24,260	4.00%	$ 18,638	4.00%
Bank Risk Based Capital Ratios				
Tier 1 Capital	$ 64,145	10.15%	$ 49,748	10.49%
(to Risk Weighted Assets)				
Tier 1 capital minimum requirement	$ 25,272	4.00%	$ 18,970	3.82%
Total Capital	$ 71,474	11.31%	$ 55,684	11.74%
(to Risk Weighted Assets)				
Total capital minimum requirement	$ 50,544	7.99%	$ 37,939	7.63%
Bank leverage				
Tier 1 Capital	$ 64,145	10.59%	$ 49,748	9.98%
(to Average Assets)				
Total capital minimum requirement	$ 24,240	4.00%	$ 19,931	4.00%

The federal banking agencies, including the OCC, have adopted regulations implementing a system of prompt corrective action under FDICIA. The regulations establish five capital categories with the following characteristics: (1) ”Well capitalized,” consisting of institutions with a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 5.0% or greater and which are not operating under an order, written agreement, capital directive or prompt corrective action directive; (2) ”Adequately capitalized,” consisting of institutions with a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital of 4.0% or greater and a leverage ratio of 4.0% or greater and which do not meet the definition of a “well capitalized” institution; (3) ”Undercapitalized,” consisting of institutions with a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a leverage ratio of less than 4.0%; (4) ”Significantly undercapitalized,” consisting of institutions with a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%; and (5) ”Critically undercapitalized,” consisting of institutions with a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Financial institutions classified as undercapitalized or below are subject to various limitations including, among other matters, certain supervisory actions by bank regulatory authorities and restrictions related to (i) growth of assets, (ii) payment of interest on subordinated indebtedness, (iii) payment of dividends or other capital distributions, and (iv) payment of management fees to a parent holding company. The FDICIA requires the bank regulatory authorities to initiate corrective action regarding financial institutions that fail to meet minimum capital requirements. Such action may result in orders to, among other matters, augment capital and reduce total assets. Critically undercapitalized financial institutions may also be subject to appointment of a receiver or implementation of a capitalization plan.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Liquidity/Interest Rate Sensitivity

The Bank strives to manage its liquidity to provide adequate funds at an acceptable cost to support the borrowing requirements and deposit flows of its customers. Liquidity requirements are evaluated by taking into consideration factors such as deposit concentrations, seasonality and maturities, loan and lease demand, capital expenditures and prevailing and anticipated economic conditions. The Bank's business is generated primarily through customer referrals and employee business development efforts.

The Bank is primarily a business and professional bank and, as such, its deposit base is more susceptible to economic fluctuations. The Bank strives to maintain a balanced position of liquid assets to volatile and cyclical deposits. At December 31, 2006, liquid assets as a percentage of deposits were 25.1% as compared to 17.5% in 2005. In addition to cash and due from banks, liquid assets include interest-bearing deposits with other banks, federal funds sold, and unpledged securities available for sale.

Management regularly reviews general economic and financial conditions, both external and internal, and determines whether the positions taken with respect to liquidity and interest rate sensitivity continue to be appropriate. The Bank utilizes a monthly "Gap" report as well as a quarterly simulation model to identify interest rate sensitivity over the short- and long-term. Management considers the results of these analyses when implementing its interest rate risk management activities, including the utilization of certain interest rate hedges.

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 December 31, 2006, 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 gap divided by interest rate sensitive assets) and the cumulative interest rate sensitivity gap ratio.

Based on the contractual terms of its assets and liabilities, the Bank's balance sheet at December 31, 2006 was asset sensitive in terms of its short-term exposure to interest rates. That is, at December 31, 2006 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, the majority of variable rate loans made by the Bank have been written with a minimum "floor" rate. In addition, the Bank has entered into an interest rate swap to hedge the variable cash flows associated with $50 million of existing variable-rate assets.

(dollars in thousands)	As of December 31, 2006					
	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	$93,845	$ -	$ -	$ -	$ -	$93,845
U.S. treasury and agency securities	1,994	995	14,004	26,940	-	43,933
Loans	479,596	763	2,669	41,375	16,377	540,780
Total earning assets	575,435	1,758	16,673	68,315	16,377	678,558
Interest checking, money market and savings deposits	337,739	-	-	-	-	337,739
Certificates of deposit:						
Less than $100,000	8,196	2,178	7,570	10,974	-	28,918
$100,000 or more	41,905	11,547	11,318	14,921	-	79,691
Total interest-bearing liabilities	345,935	2,178	7,570	10,974	0	446,348
Interest rate gap	$229,500	($420)	$9,103	$57,341	$16,377	$232,210
Cumulative interest rate gap	$229,500	$229,080	$238,183	$295,524	$311,901	
Interest rate gap ratio	0.40	(0.24)	0.55	0.84	1.00	
Cumulative interest rate gap ratio	0.40	0.40	0.40	0.45	0.46	

The following table shows maturity and interest rate sensitivity of the loan portfolio at December 31, 2006 and 2005. At December 31, 2006, approximately 73.3% 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 December 31, 2006			
	Amount	Due one year or less	Due after one year through five years	Due after five years
Commercial	$ 197,174	$102,870	$82,154	$12,150
SBA	59,888	8,857	186	50,845
Real estate construction	103,710	102,005	1,705	-
Real estate other	115,313	44,802	25,633	44,878
Factoring and asset based lending	56,924	56,924	-	-
Other	7,771	4,656	3,115	-
Total loans	$540,780	$320,114	$112,793	$107,873

	As of December 31, 2005			
	Amount	Due one year or less	Due after one year through five years	Due after five years
Commercial	$182,396	$99,900	$76,216	$6,280
SBA	46,867	5,976	135	40,756
Real estate construction	84,792	80,609	4,183	-
Real estateother	83,748	28,215	6,627	48,906
Factoring and asset based lending	38,184	37,134	1,050	-
Other	4,011	3,755	256	-
Total loans	$439,998	$255,589	$88,467	$95,942

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 December 31, 2006 those guarantees include the following:

Financial Letters of Credit in the amount of $12.1 million

The table below summarizes the Bank’s off-balance sheet contractual obligations.

(dollars in thousands)

Contractual Obligations	As of December 31, 2006				
	Payments due by period				
	Total	Less Than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term contracts	$ 2,294	$ 749	$ 713	$ 832	$ -
Operating leases	15,997	927	3,674	3,513	7,883
Total	$ 18,291	$ 1,676	$ 4,387	$ 4,345	$ 7,883

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

All schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule or because the information required is included in the Financial Statements or notes thereto.

* * * * *

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Bridge Capital Holdings

We have audited the consolidated balance sheets of Bridge Capital Holdings and Subsidiary as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for the two years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express opinions on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bridge Capital Holdings and Subsidiary as of December 31, 2006 and 2005 and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
February 27, 2007

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Bridge Capital Holdings:

In our opinion, the accompanying consolidated statements of operations, of shareholders' equity and comprehensive income, and of cash flows present fairly, in all material respects, the results of operations and cash flows of Bridge Capital Holdings and its subsidiaries for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
March 8, 2005

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Bridge Capital Holdings and Subsidiary
San Jose, California

We have audited management's assessment, included in the accompanying Report of Management, that Bridge Capital Holdings and Subsidiary (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or 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. Also, 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.

In our opinion, management's assessment that Bridge Capital Holdings and Subsidiary maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheet as of December 31, 2006 and the related consolidated statements of income, stockholders equity and cash flows for the year then ended, and our report dated February 27, 2007 expressed an unqualified opinion.

/s/ Vavrinek, Trine, Day & Co., LLP
Palo Alto, California
February 27, 2007

Bridge Capital Holdings and Subsidiary
Consolidated Balance Sheets
(dollars in thousands)

	As of December 31, 2006	As of December 31, 2005
Assets:		
Cash and due from banks	$ 24,360	$ 22,880
Federal funds sold	93,845	46,660
Total cash and equivalents	118,205	69,540
Investment securities available for sale	43,933	12,383
Loans, net of allowance for credit losses of $7,329 at December 31, 2006 and $5,936 at December 31, 2005	531,956	432,667
Premises and equipment, net	3,479	2,337
Other real estate owned	-	-
Accrued interest receivable	4,292	2,202
Other assets	20,114	17,391
Total assets	$ 721,979	$ 536,520
Liabilities and Shareholders' Equity:		
Deposits:		
Demand noninterest-bearing	$ 198,639	$ 185,557
Demand interest-bearing	3,901	2,866
Savings	333,838	210,011
Time	108,609	69,724
Total deposits	644,987	468,158
Junior subordinated debt securities	17,527	12,372
Other borrowings	-	10,000
Accrued interest payable	318	130
Other liabilities	10,053	6,146
Total liabilities	672,885	496,806
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; 6,318,694 shares issued and outstanding at December 31, 2006; 6,227,596 shares issued and outstanding at December 31, 2005.	34,406	33,787
Additional paid in capital	1,021	120
Retained earnings	14,543	5,909
Accumulated other comprehensive (loss)	(876)	(102)
Total shareholders' equity	49,094	39,714
Total liabilities and shareholders' equity	$ 721,979	$ 536,520

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

Bridge Capital Holdings and Subsidiary
Consolidated Statements of Operations
(dollars in thousands, except share data)

	Year Ended December 31,		
	2006	**2005**	**2004**
Interest Income:			
Loans	$ 48,248	$ 31,983	$ 18,378
Federal funds sold	3,990	1,703	546
Investment securities available for sale	724	432	533
Total interest income	52,962	34,118	19,457
Interest Expense:			
Deposits	13,182	5,874	2,874
Other	1,089	741	22
Total interest expense	14,271	6,615	2,896
Net interest income	38,691	27,503	16,561
Provision for credit losses	1,372	2,162	1,671
Net interest income after provision for credit losses	37,319	25,341	14,890
Non-Interest Income:			
Gain on sale of SBA loans	1,320	2,290	2,737
SBA loan servicing fee income	548	528	358
Service charges on deposit accounts	498	354	362
Other non-interest income	1,471	1,025	398
Total non-interest income	3,837	4,197	3,855
Operating Expenses:			
Salaries and benefits	17,417	12,127	8,081
Occupancy	2,132	1,652	1,420
Data services	1,528	1,085	763
Marketing	1,081	925	612
Third party services	925	1,065	95
Professional services	825	746	645
Furniture and equipment	701	583	585
Deposit services/supplies	525	401	311
Other	2,145	1,397	1,084
Total operating expenses	27,279	19,981	13,596
Income before income taxes	13,877	9,557	5,149
Income taxes	5,243	3,832	2,112
Net income	$ 8,634	$ 5,725	$ 3,037
Basic earnings per share	$1.38	$0.93	$0.50
Diluted earnings per share	$1.27	$0.85	$0.46
Average common shares outstanding	6,274,051	6,164,898	6,063,028
Average common and equivalent shares outstanding	6,816,700	6,730,947	6,595,413

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

Bridge Capital Holdings and Subsidiary
Consolidated Statements of Shareholders' Equity and Comprehensive Income
(dollars in thousands, except share data)

	Common Stock and Additional Paid in Capital		Retained	Accumulated Other Comprehensive	Total Share-holders'
	Shares	Amount	Earnings	Income (loss)	Equity
Balance at December 31, 2003	6,051,646	$ 32,800	$ (2,853)	$ 7	$ 29,954
Stock options exercised	46,051	257	-	-	257
Other comprehensive income- unrealized loss on securities available for sale, net	-	-	-	(126)	(126)
Net income for the year	-	-	3,037	-	3,037
Balance at December 31, 2004	6,097,697	$ 33,057	$ 184	$ (119)	$ 33,122
Stock options exercised	129,899	730	-	-	730
Tax benefit from exercise of non qualified stock options	-	120	-	-	120
Other comprehensive income- unrealized gain on securities available for sale, net	-	-	-	17	17
Net income for the year	-	-	5,725	-	5,725
Balance at December 31, 2005	6,227,596	$ 33,907	$ 5,909	$ (102)	$ 39,714
Stock options exercised	91,098	619	-	-	619
Tax benefit from exercise of non qualified stock options	-	141	-	-	141
Stock based compensation	-	760	-	-	760
Other comprehensive income	-	-	-	(774)	(774)
Net income for the year	-	-	8,634	-	8,634
Balance at December 31, 2006	6,318,694	$ 35,427	$ 14,543	$ (876)	$ 49,094

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

Bridge Capital Holdings and Subsidiary
Consolidated Statements of Cash Flows
(dollars in thousands)

	Year Ended December 31,		
	2006	**2005**	**2004**
Cash Flows From Operating Activities:			
Net income	$ 8,634	$ 5,725	$ 3,037
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	1,372	2,162	1,671
Depreciation and amortization	840	853	908
Stock based compensation	760	-	-
Proceeds from loan sales	51,359	66,578	84,889
Loans originated for sale	(66,268)	(69,843)	(68,459)
Increase in accrued interest receivable and other assets	(4,290)	(4,747)	(3,102)
Increase in accrued interest payable and other liabilities	2,478	2,176	2,314
Net cash (used in) provided by operating activities	(5,115)	2,904	21,258
Cash Flows From Investing Activities:			
Purchase of securities available for sale	(41,984)	(50,394)	(17,554)
Proceeds from maturities of securities available for sale	10,625	64,300	15,200
Net increase in loans	(85,752)	(142,097)	(116,515)
Purchase of life insurance	-	-	(8,000)
Purchase of fixed assets	(2,085)	(935)	(1,417)
Net cash used in investing activities	(119,196)	(129,126)	(128,286)
Cash Flows From Financing Activities:			
Net increase in deposits	176,830	115,702	106,062
Proceeds from sale of common stock	619	850	257
Increase in other borrowings	(4,473)	10,000	12,372
Net cash provided by financing activities	172,976	126,552	118,691
Net Increase in Cash and Equivalents:	48,665	330	11,663
Cash and equivalents at beginning of period	69,540	69,210	57,547
Cash and equivalents at end of period	$ 118,205	$ 69,540	$ 69,210
Other Cash Flow Information:			
Cash paid for interest	$ 14,082	$ 6,554	$ 2,694
Cash paid for income taxes	$ 6,895	$ 4,665	$ 2,101

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

BRIDGE CAPITAL HOLDINGS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The financial statements include the accounts of Bridge Capital Holdings and its subsidiary, Bridge Bank, N.A. ("the Bank") collectively referred to herein as "the Company".

Business - Bridge Bank, N.A. commenced business in Santa Clara, California on May 14, 2001. Its main office is located at 55 Almaden Blvd, San Jose, California, 95113. The Bank conducts commercial and retail banking business, which includes accepting demand, savings and time deposits and making commercial, real estate and consumer loans. It also issues cashier's checks, sells travelers checks and provides other customary banking services.

On October 1, 2004, the Bank announced completion of a bank holding company structure which was approved by shareholders at the Bank's annual shareholders' meeting held on May 20, 2004. The bank holding company, formed as a California corporation, is named Bridge Capital Holdings. Information in this report dated prior to September 30, 2004 is for Bridge Bank, N.A.

Bridge Capital Holdings (the "Company") was formed for the purpose of serving as the holding company for Bridge Bank, N.A. and is supervised by the Board of Governors of the Federal Reserve System. Effective October 1, 2004, Bridge Capital Holdings acquired 100% of the voting shares of Bridge Bank, N.A.. As a result of the transaction, the former shareholders of Bridge Bank, N.A. received one share of common stock of Bridge Capital Holdings for every one share of common stock of Bridge Bank, N.A. owned.

Prior to the share exchange, the common stock of the Bank had been registered with the Office of Comptroller of the Currency. As a result of the share exchange, common stock of Bridge Capital Holdings is now registered with the Securities and Exchange Commission. Filings under the federal securities laws are made with the SEC rather than the Office of the Comptroller of the Currency and are available on the SEC's website, http://www.sec.gov as well as on the Company's website http://www.bridgebank.com.

Basis of Presentation – The accounting and reporting policies of Bridge Capital Holdings and Bridge Bank, N.A. conform to generally accepted accounting principles and prevailing practices within the banking industry.

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. 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.

Cash Equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, Federal Funds sold and highly liquid debt instruments purchased with an original maturity of three months or less. The Company is required to maintain non-interest earning cash reserves against certain of the deposit accounts. As of December 31, 2006, aggregate reserves (in the form of deposits with the Federal Reserve Bank) of $6.5 million were maintained.

Securities - The Company classifies its investment securities into two categories, available for sale and held to maturity, at the time of purchase. Securities available for sale are reported at fair value with net unrealized holding gains or losses, net of tax, recorded as a separate component of shareholders' equity. Securities held to maturity are measured at amortized cost based on the Company's positive intent and ability to hold the securities to maturity. As of December 31, 2006 and

2005, all of the Company's securities were classified as available for sale.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income is recognized when earned. Gains and losses on sales of securities are computed on a specific identification basis.

Loans - Loans are stated at the principal amount outstanding less the allowance for credit losses and net deferred loan fees. Interest on loans is credited to income as earned. Loans are generally placed on nonaccrual status and any accrued and unpaid interest is reversed when the payment of principal or interest is 90 days past due unless the loan is both well secured and in the process of collection. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Loan origination fees and costs are deferred and amortized to income at the instrument level using the effective interest method based on the contractual lives adjusted for prepayments.

Loans Held For Sale - Small Business Administration ("SBA") loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized gains are recognized through a valuation allowance by credits to income. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of loans are included in non-interest income.

The Bank has adopted SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The Statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Under this Statement, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

To calculate the gain (loss) on sale of loans, the Bank's investment in the loan is allocated among the retained portion of the loan, the servicing retained, the interest-only strip and the sold portion of the loan, based on the relative fair market value of each portion. That portion of the excess servicing fees that represents contractually specified servicing fees (contractual servicing) is reflected as a servicing asset which is amortized over an estimated life using a method approximating the level yield method. The portion of excess servicing fees in excess of the contractual servicing fees is reflected as an interest-only (I/O) strip receivable, which is classified as available for sale and carried at fair value. The gain (loss) on the sold portion of the loan is recognized at the time of sale based on the difference between the sale proceeds and the allocated investment. As a result of the relative fair value allocation, the carrying value of the retained portion is discounted, with the discount accreted to interest income over the life of the loan.

Allowance for Credit Losses - The allowance for credit losses is established through a provision charged to expense. Loans are charged off against the allowance when management believes that the collection of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb known and probable losses in the loan portfolio. The allowance is based on a number of factors including prevailing economic trends, industry experience, estimated collateral values, management's assessment of credit risk inherent in the portfolio, delinquency trends, historical loss experience, specific problem loans and other relevant factors. Because the allowance for loan losses is based on estimates, ultimate losses may vary from current estimates.

Accounting for Impaired Loans - A loan is considered impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. Any allowance on impaired loans is generally based on three methods. 1) present value of expected future cash flows discounted at the loan's effective interest rate or, 2) as a practical expedient, at the loan's observable market price or 3) the fair value of the collateral if the loan is collateral dependent. Income recognition on impaired loans is consistent with the policy for income recognition on non-accrual loans described above.

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 or the estimated useful lives of the assets, which are generally three years for computer equipment, three to five years for furniture, fixtures and equipment and five to ten years for leasehold improvements.

Other Real Estate Owned - Other real estate owned ("OREO") consist of properties acquired through foreclosure. The Company values these properties at the lower of cost or fair value less estimated costs to sell at the time it acquires them, which establishes the new cost basis. The Company charges against the allowance for credit losses any losses arising at the time of acquisition of such properties. After it acquires them, the Company carries such properties at the lower of cost or fair value less estimated selling costs. If the Company records any write-downs or losses from disposition of such properties after acquiring them, it includes this amount in other non-interest expense. Development and improvement costs relating to OREO are capitalized (assuming they are recoverable). The Company has no OREO at December 31, 2006 or 2005.

Income Taxes - Deferred tax assets and liabilities are recognized at currently enacted rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized and settled. Deferred income taxes are provided on income and expense items recognized in different periods for financial statement and tax reporting purposes.

Stock-Based Compensation - On January 1, 2006, the Company implemented 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. SFAS No. 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and instead generally requires that such transactions be accounted for using a fair-value-based method. 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 elected the modified prospective transition method as permitted by SFAS No. 123R and accordingly prior periods have not been restated to reflect the impact of SFAS No. 123R. The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options, restricted stock, restricted stock units, and employee stock purchase plan shares that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006, the first day of the Company's fiscal year 2006. Stock-based compensation expense for awards granted prior to January 1, 2006 is based on the grant date fair-value as determined under the pro forma provisions of SFAS No. 123. The Company has recorded an incremental $760,000 ($710,000 net of tax) of stock-based compensation expense during 2006 as a result of the adoption of SFAS No. 123R. The impact of implementing SFAS No. 123R reduced basic earnings per share by $0.11 and diluted earnings per share by $0.06 for the year ended December 31, 2006.

No stock-based compensation costs were capitalized as part of the cost of an asset as of December 31, 2006. As of December 31, 2006, $3.5 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 5 years. The total fair value of shares vested during the years ended December 31, 2006, 2005, and 2004 was $587,000, $429,000, and $438,000, respectively.

Prior to the adoption of SFAS No. 123R, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25. The Company applied the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure as if the fair-value-based method had been applied in measuring compensation expense. Under APB Opinion No. 25, when the exercise price of the Company's employee stock options was equal to the market price of the underlying stock on the date of the grant, no compensation expense was recognized.

The following table illustrates the effect on net income after taxes and net income per common share as if the Company had applied the fair value recognition provisions of SFAS No. 123R to stock-based compensation during 2005 and 2004 (in thousands, except per share amounts):

(dollars in thousands, except share data)	Year ended December 31, 2005		2004	
Net income	$	5,725	$	3,037
Stock based employee compensation, net of tax, that would have been included in the determination of net income if the fair value method had been applied to all awards		(317)		(214)
Pro forma net income	$	5,408	$	2,823
Basic earnings per share:				
As reported	$	0.93	$	0.50
Pro forma	$	0.88	$	0.47
Diluted earnings per share:				
As reported	$	0.85	$	0.46
Pro forma	$	0.80	$	0.43

Recent Accounting Announcements - In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, “Accounting Changes and Error Corrections”. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154, effective January 1, 2006, did not have any impact on our financial condition or operating results.

In February 2006, the Financial Accounting standards Board released SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments”. SFAS No. 155 is an amendment of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities”. SFAS No. 155 establishes, amount other items, the accounting for certain derivative instruments embedded within other types of financial instruments; and eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. Effective for the Company for January 1, 2007, SFAS No. 155 is not expected to have any impact on our financial position, results of operations or cash flows.

In March 2006, the Financial Accounting standards Board released SFAS No. 156, “Accounting for Servicing of Financial Assets”, an amendment of SFAS Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities”. SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities in accordance with SFAS No. 140 be initially measured at fair value, if practicable. Furthermore, this standard permits, but does not require fair value measurement for separately recognized servicing assets and liabilities in subsequent reporting periods. SFAS No. 156 is also effective for the Company beginning January 1, 2007; however, the standard is not expected to have a material on the Company’s financial position, results of operations or cash flows.

In June 2006, the Financial Accounting standards Board issued FIN No. 48, “Accounting for Uncertainty in Income Taxes”. This interpretation clarifies the accounting for uncertainty in income taxes in a company’s financial statements, in accordance with SFAS No. 109, “Accounting for Income Taxes”, by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We do not expect FIN No. 48, which is effective for fiscal years beginning after December 15, 2006, to have a material impact on our financial condition or operating results.

In September 2006, the Financial Accounting standards Board issued SFAS No. 157, “Fair Value Measurement”, a standard that provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors’ requests for expanded information about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings.

The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. We will adopt SFAS No. 157 on January 1, 2008, and we do not expect the adoption of SFAS No. 157 to have a material impact on our financial condition or operating results.

In September 2006, the Financial Accounting standards Board issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", which requires employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The standard will make it easier for investors, employees, retirees and others to understand and assess an employer's financial position and its ability to fulfill the obligations under its benefit plans. Specifically, SFAS No. 158 requires an employer to (a) recognize in its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes are reported as a component of other comprehensive income. The adoption of SFAS No. 158 did not have a material impact on our financial condition or operating results. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of December 31, 2006. See Note 10 to the financial statements.

Reclassifications - Certain reclassifications were made to prior years' presentations to conform to the current year. These reclassifications had no effect on net income or earnings per share.

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 accumulated other comprehensive losses totaling ($876,000), net of tax, at December 31, 2006, ($102,000), net of tax, at December 31, 2005 and ($119,000), net of tax, at December 31, 2004.

(dollars in thousands)	Year ended December 31,		
	2006	2005	2004
Net income	$ 8,634	$ 5,725	$ 3,037
Other comprehensive earnings-			
Net unrealized gains (losses) on FAS 158 adjustment-supplemental executive retirement plan	(711)		
Net unrealized gains (losses) on cash flow hedges	(114)		
Net unrealized gains (losses) on securities available for sale	51	17	(126)
Total comprehensive income	$ 7,860	$ 5,742	$ 2,911

Segments of an Enterprise and Related 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.

Derivative Instruments and Hedging Activities – SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction.

The Company's objective in using derivatives is to add stability to interest income and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses an interest rate swap as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts in exchange for variable-rate payments over the life of the agreements without exchange of the underlying principal amount. During 2006, the derivative was used to hedge the variable cash flows associated with $50.0 million of existing variable-rate assets.

As of December 31, 2006, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges.

At December 31, 2006, derivatives with a fair value of $183,000 were included in other liabilities. The change in net unrealized losses of $183,000 (net of income tax benefit of $69,000) in 2006 for derivatives designated as cash flow hedges is separately disclosed in the statement of changes in comprehensive income. No hedge ineffectiveness on cash flow hedges was recognized during 2006.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate assets. The change in net unrealized losses on cash flow hedges reflects a reclassification of $12,000 of net unrealized losses from accumulated other comprehensive income to interest income during 2006. During 2007, the Company estimates that $174,000 will be reclassified.

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, except share data)	Year ended December 31,		
	2006	2005	2004
Net income	$ 8,634	$ 5,725	$ 3,037
Weighted average shares used in computing:			
Basic common shares	6,274,051	6,164,898	6,063,028
Dilutive potential common shares related to stock options and restricted stock, using the treasury stock method	542,649	566,049	532,385
Total average common shares and equivalents	6,816,700	6,730,947	6,595,413
Basic earnings per share	$ 1.38	$ 0.93	$ 0.50
Diluted earnings per share	$ 1.27	$ 0.85	$ 0.46

There were 331,265 options (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the period(s) presented.

3. SECURITIES

The amortized cost and estimated fair values of securities are as follows:

(dollars in thousands)	As of December 31, 2006			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government treasury securities	$ 200	$ -	$ -	$ 200
U.S. government agency securities	43,815	24	(106)	43,733
Total seurities available for sale	44,015	24	(106)	43,933
Total investment securities	$ 44,015	$ 24	$ (106)	$ 43,933

	As of December 31, 2005			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government treasury securities	$ 199	$ -	$ -	$ 199
U.S. government agency securities	12,355	-	(171)	12,184
Total seurities available for sale	12,554	-	(171)	12,383
Total investment securities	$ 12,554	$ -	$ (171)	$ 12,383

	As of December 31, 2004			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
U.S. government treasury securities	$ 100	$ -	$ -	$ 100
U.S. government agency securities	26,400	-	(202)	26,198
Total seurities available for sale	26,500	-	(202)	26,298
Total investment securities	$ 26,500	$ -	$ (202)	$ 26,298

As of December 31, 2006, investment securities with carrying values of approximately $200,000 were pledged as collateral. As of December 31, 2006, $36,000 in unrealized losses was attributable to securities positioned for the period greater than 12 months. The unrealized losses on investments in U.S. Government agency securities which have been in an unrealized loss position for one year or longer as of December 31, 2006 (a total of 2 securities), were caused by market interest rate increases subsequent to the purchase of the securities. Because the Bank has the ability to hold these investments until a recovery in fair value, which may be maturity, the unrealized losses on these investments are not considered to be other-than-temporarily impaired as of December 31, 2006.

The scheduled maturities of securities (other than equity securities) available for sale at December 31, 2006, 2005 and 2004 were as follows:

(dollars in thousands)

	December 31, 2006	
	Amortized Cost	Fair Value
Due in one year or less	$ 17,042	$ 16,993
Due after one year through five years	26,973	26,940
Due after five years through ten years	-	-
Due after ten years	-	-
Total securities available for sale	44,015	43,933
Total Investment securities	$ 44,015	$ 43,933

	December 31, 2005	
	Amortized Cost	Fair Value
Due in one year or less	$ 10,536	$ 10,429
Due after one year through five years	2,018	1,954
Due after five years through ten years	-	-
Due after ten years	-	-
Total securities available for sale	12,554	12,383
Total Investment securities	$ 12,554	$ 12,383

	December 31, 2004	
	Amortized Cost	Fair Value
Due in one year or less	$ 14,116	$ 14,074
Due after one year through five years	12,384	12,224
Due after five years through ten years	-	-
Due after ten years	-	-
Total securities available for sale	26,500	26,298
Total Investment securities	$ 26,500	$ 26,298

4. LOANS AND ALLOWANCES FOR CREDIT LOSSES

The following summarizes loans and activity in the allowance for loan losses for the years ended December 31, 2006, 2005 and 2004.

A summary of loans is as follows:

(dollars in thousands)	As of December 31, 2006	2005	2004
Commercial	$ 197,174	$ 182,396	$ 100,681
SBA	59,888	46,867	45,251
Real estate construction	103,710	84,792	42,323
Real estate other	115,313	83,748	80,044
Factoring and asset based lending	56,924	38,184	22,342
Other	7,771	4,011	3,945
Total gross loans	540,780	439,998	294,586
Unearned fee income	(1,495)	(1,395)	(973)
Total loan portfolio	539,285	438,603	293,613
Less allowance for credit losses	(7,329)	(5,936)	(4,146)
Total loan portfolio, net	$ 531,956	$ 432,667	$ 289,467

Analysis of the allowance for credit losses:

(dollars in thousands)	As of December 31, 2006	2005	2004
Balance, beginning of period	$ 5,936	$ 4,146	$ 2,683
Provision for credit losses	1,372	2,162	1,671
Charge-offs	-	(384)	(240)
Recoveries	21	12	32
Balance, end of period	$ 7,329	$ 5,936	$ 4,146

There were two loans on non-accrual at December 31, 2006 totaling $437,000, one non-accrual loan at December 31, 2005 totaling $2.3 million, and two non-accrual loans at December 31, 2004 totaling $1.0 million. At December 31, 2006, the two non-accrual loans consisted of commercial loans secured by business assets and real property with values in excess of the carrying value of the loans. At December 31, 2005, the non-accrual loans consisted of one commercial loan secured by business assets and real property with values in excess of the carrying value of the loan. At December 31, 2004, the non-accrual loans consisted of two SBA loans of which $712,000 was guaranteed by the U.S. Government. The remaining balance of $314,000 was secured by business assets and real property. Of the two loans on non-accrual at December 31, 2004, one loan was determined to be impaired and its carrying value reflects the fair value of the collateral securing the loan.

Income on such loans is only recognized to the extent that cash is received and where the future collection of principal is probable. Accrual of interest is resumed only when principal and interest are brought fully current and when such loans are considered to be collectible as to both principal and interest.

At December 31, 2006, 2005, and 2004, there were no loans past due 90 days or more as to principal or interest and still accruing interest.

There was no OREO at December 31, 2006, 2005, or 2004.

5. PREMISES AND EQUIPMENT

Premises and equipment are comprised of the following:

(dollars in thousands)	As of December 31, 2006	2005	2004
Leasehold improvements	$ 3,374	$ 1,981	$ 1,590
Furniture and equipment	2,047	1,752	1,488
Capitalized software	1,691	1,344	1,066
Premises and equipment	7,112	5,077	4,144
Less accumulated depreciation and amortization	(3,633)	(2,740)	(1,929)
Premises and equipment, net	$ 3,479	$ 2,337	$ 2,215

Depreciation and amortization amounted to $943,000, $813,000 and $717,000 for the years ended December 31, 2006, 2005 and 2004, respectively, and have been included in occupancy and/or furniture and equipment expense, depending on the nature of the expense, in the accompanying statements of operations.

6. DEPOSITS

The Bank'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 December 31, 2006, 2005 and 2004.

(dollars in thousands)	As of December 31, 2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Noninterest-bearing demand	$198,639	30.80%	$185,557	39.64%	$126,895	36.00%
Interest-bearing demand	3,901	0.60%	2,866	0.61%	3,946	1.12%
Money market and savings	333,838	51.76%	210,011	44.86%	169,801	48.18%
Certificates of deposit:						
Less than $100	28,918	4.48%	19,228	4.11%	16,182	4.59%
$100 and more	79,691	12.36%	50,496	10.79%	35,632	10.11%
Total deposit portfolio	$644,987	100.00%	$468,158	100.00%	$352,456	100.00%

Deposits at December 31, 2006 included $27.3 million, or 4.2% of the total, in title and escrow company account balances compared to $70.6 million, or 15.1% at December 31, 2005 and $55.3 million, or 15.6% at December 31, 2004.

At December 31, 2006, time deposits of $100,000 or more have remaining maturities as follows:

(in thousands)		
3 months or less	$	41,905
Over 3 months to 6 months		11,547
Over 6 months to 12 months		11,318
Over 1 year to 5 years		14,921
TOTAL	$	79,691

At December 31, 2006, the scheduled maturities of all time deposits are as follows:
(dollars in thousands)

2007	$	82,713
2008		18,947
2009		6,750
2010		199
	$	108,609

7. 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 no other borrowings at December 31, 2006. Other borrowings at December 31, 2005 were comprised of one advance from the Federal Home Loan Bank of San Francisco for $10,000,000 with a fixed rate of 4.38% and a maturity date of January 6, 2006. The advance was secured by loans totaling approximately $16.0 million.

As of December 31, 2006, the Bank had a total borrowing capacity of approximately $113.0 million. The Bank also has unsecured borrowing lines with correspondent banks totaling $27.0 million. At December 31, 2006, there were no balances outstanding on these lines.

8. INCOME TAXES

Income tax expense (benefit) consists of the following for the years ended December 31, 2006, 2005 and 2004:

(dollars in thousands)	Year ended December 31,		
	2006	2005	2004
Current:			
Federal	$ 5,058	$ 4,081	$ 1,826
State	1,525	1,057	489
Total current	6,583	5,138	2,315
Deferred:			
Federal	(982)	(1,006)	(211)
State	(358)	(300)	8
Total deferred	(1,340)	(1,306)	(203)
Income tax provision	$ 5,243	$ 3,832	$ 2,112

Deferred income taxes reflect the net tax effect of temporary differences between carrying amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. The tax effects of temporary differences that gave rise to significant portions of deferred tax assets at December 31, 2006, 2005 and 2004 are as follows:

(dollars in thousands)	As of ended December 31,		
	2006	2005	2004
Deferred tax assets (liability):			
Deferred loan fee	$ 523	$ 488	$ 340
Allowance for credit losses	2,276	1,756	1,246
Deferred pre-opening expenses	15	29	153
State income taxes	1,343	957	536
Fixed assets	115	(27)	(113)
Other	(3)	292	-
Accrued expenses	656	91	119
Net Deferred Tax Asset	$ 4,925	$ 3,586	$ 2,281

In addition to the above net deferred tax asset, the Company has additional deferred tax assets arising from adjustments to other comprehensive income aggregating $575,000 as of December 31, 2006.

The effective tax rate differs from the federal statutory rate as follows:

	Year ended December 31,		
	2006	2005	2004
Federal statutory rate	35.00%	35.00%	35.00%
State income tax, net of federal effect	5.47%	5.15%	6.27%
BOLI income	-0.81%	-1.38%	0.00%
Other, net	-1.88%	1.33%	-0.25%
Income taxes	37.78%	40.10%	41.02%

9. STOCK BASED COMPENSATION

On May 18, 2006, the Company's shareholders approved the 2006 Equity Incentive Plan (the "Plan") which supersedes the Stock Option Plan that was established in 2001. The total authorized shares that are available for issuance under the Plan is 500,000 shares. The Plan provides for the following types of stock-based awards: incentive stock options; nonqualified stock options; stock appreciation rights; restricted stock awards; restricted stock units; performance units; and stock grants. As of December 31, 2006, the Company has issued incentive stock options, nonqualified stock options, and restricted stock awards under the Plan.

Options issued under the Plan may be granted to employees and non-employee directors and may be either incentive or nonqualified stock options as defined under current tax laws. The exercise price of each option must equal the market price of the Company's stock on the date of the grant. The term of the option may not exceed 10 years and generally vests over a 4 year period.

Restricted stock awards issued under the Plan may be granted to employees and non-employee directors. The grant price of each award generally equals the market price of the Company's stock on the date of the grant. The awards generally vest after a 5 year period. During the period of restriction, participants holding restricted stock awards have full voting and dividend rights on the shares.

At the time the 2006 Equity Incentive Plan was adopted, the total authorized shares available for issuance under the 2001 Stock Option Plan was 1,813,225 shares and the number of shares available for future grant was 253,577 shares. As the 2006 Equity Incentive Plan supersedes the 2001 Stock Option Plan, no further grants may be made under the 2001 plan and as such, the 253,577 shares that were available for future grant under the 2001 plan may no longer be awarded.

As of December 31, 2006, there were 1,481,728 shares underlying outstanding awards under the Company's stock-based compensations plans and 279,185 shares available for future grants under the 2006 Equity Incentive Plan.

A summary of the Company's stock option awards as of December 31, 2006, 2005, and 2004 and changes during the periods ended on those date are presented below:

	Stock Option Awards Outstanding: Number of Shares	Stock Option Awards Outstanding: Weighted Average Exercise Price
Balances, December 31, 2003	1,108,925	$ 5.65
Granted	193,850	$ 13.14
Exercised (aggregate intrinsic value of $367,000)	(46,051)	$ 5.58
Cancelled	(750)	$ 6.44
Expired	-	$ -
Balances, December 31, 2004	1,255,974	$ 6.81
Granted	235,750	$ 15.30
Exercised (aggregate intrinsic value of $1.4 million)	(129,899)	$ 5.62
Cancelled	(26,488)	$ 14.08
Expired	-	$ -
Balances, December 31, 2005	1,335,337	$ 8.30
Granted	267,935	$ 20.92
Exercised (aggregate intrinsic value of $1.2 million)	(91,098)	$ 6.79
Cancelled	(61,576)	$ 14.96
Expired	-	$ -
Balances, December 31, 2006	1,450,598	$ 10.48

The following table summarizes information about stock options outstanding at December 31, 2006.

	Stock Option Awards Outstanding			Stock Option Awards Exercisable		
Exercise Price range	Shares	Weighted Remaining Life (Years)	Weighted Exercise Price	Shares	Weighted Remaining Life (Years)	Weighted Exercise Price
$ 5.00 - $ 5.99	580,275	4.2	$ 5.00	580,275	4.2	$ 5.00
$ 6.00 - $ 12.99	375,638	6.1	$ 8.73	301,775	5.9	$ 7.94
$ 13.00 - $ 15.99	202,550	8.3	$ 14.85	55,885	8.3	$ 14.84
$ 16.00 - $ 20.99	158,400	9.3	$ 19.08	7,423	8.9	$ 17.68
$ 21.00 - $ 22.99	133,735	9.8	$ 22.39	-	-	$ -
	1,450,598	6.4	$ 10.48	945,358	5.0	$ 6.62

The aggregate intrinsic value of stock option awards outstanding and stock option awards exercisable at December 31, 2006 was $14.7 million and $13.1 million, respectively.

A summary of the Company's non-vested shares of restricted stock awards as of December 31, 2006, and changes during the period ended on that date is presented below:

	Non-Vested Restricted Stock Awards: Number of Shares	Non-Vested Restricted Stock Awards: Weighted Average Grant Date Fair Value
Balances, December 31, 2005	-	$ -
Granted	31,130	$ 22.42
Vested	-	$ -
Forfeited	-	$ -
Balances, December 31, 2006	31,130	$ 22.42

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 2006, 2005, and 2004 and the resulting estimates of weighted-average fair value per share of stock-based awards granted during those periods are as follows:

	Year ended December 31, 2006	2005	2004
Expected life	60 months	58 months	60 months
Stock volatility	32.9%	24.8%	21.9%
Risk free interest rate	4.7%	3.7%	3.2%
Dividend yield	0.00%	0.00%	0.00%
Fair value per share	$ 9.36	$ 6.10	$ 3.48

10. PENSION BENEFIT PLANS

Effective August 1, 2004, the Bank established the Supplemental Executive Retirement Plan (SERP), an unfunded noncontributory defined benefit pension plan. The SERP provides retirement benefits to a select group of key executives and senior officers based on years of service and final average salary. The Bank uses a December 31 measurement date for this plan.

The following table reflects the accumulated benefit obligation and funded status of the SERP for the years ended December 31, 2006 and 2005.

(dollars in thousands)	Year ended December 31,	
	2006	2005
Change in benefit obligation		
Benefit obligation at beginning of year	$ 1,680,169	$ 1,213,358
Service cost	386,985	311,438
Interest cost	117,283	91,488
Amendments	-	-
Actuarial (gains)/losses	166,351	63,885
Acquisitions/(divestitures)	-	-
Expected benefits paid	-	-
Projected benefit obligation at end of year	$ 2,350,788	$ 1,680,169
Change in plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Actual return on plan assets	-	-
Acquisitions/(divestitures)	-	-
Employer contributions	-	-
Expected benefits paid	-	-
Fair value of plan assets at end of year	$ -	$ -
Funded status	$(2,350,788)	$(1,680,169)
Unrecognized net actuarial (gain) loss	230,236	63,885
Unrecognized prior service cost	852,099	922,342
Unrecognized net transition obligation (asset)	-	-
(Accrued)/prepaid benefit cost	$(1,268,453)	$ (693,942)
Unfunded projected/accumulated benefit obligation	$(2,350,788)	$ (925,200)
Additional liability	$(1,082,335)	$ (231,258)
Intangible asset	$ -	$ 231,257
Impact on retained earnings	$(2,350,788)	$ (925,200)
Weighted average assumptions to determine benefit obligation as of December 31:		
Discount rate	5.75%	5.70%
Rate of compensation increase	5.00%	5.00%

The components of net periodic benefit cost recognized for the years ended December 31, 2006 and 2005 and the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during the year ended December 31, 2007 are as follows:

(dollars in thousands)	Year ended December 31,		
	2007	2006	2005
Components of net periodic benefit cost			
Service cost	$ 414,159	$ 386,985	$ 311,438
Interest cost	158,984	117,283	91,488
Expected return on plan assets	-	-	-
Amortization of transition obligation (asset)	-	-	220,773
Amortization of prior service cost	70,243	70,243	70,243
Amortization of actuarial (gains)/losses	-	-	-
Net periodic benefit cost	$ 643,386	$ 574,511	$ 693,942
Other comprehensive income (cost)	$ 70,243	$(1,082,335)	$ -

11. RELATED PARTY TRANSACTIONS

There are no existing or proposed material interests or transactions between the Bank and/or any of its officers or directors outside the ordinary course of the Bank's business.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Lease Commitments

The Bank's Santa Clara, San Jose and Palo Alto locations are leased under non-cancelable operating leases that expire in 2010, 2016 and 2006, respectively. The Bank has renewal options with adjustments to the lease payments based on changes in the consumer price index.

Future minimum annual lease payments are as follows (dollars in thousands):

Future lease payments For years ended December 31,		
2007	$	927
2008		1,821
2009		1,853
2010		1,854
2011		1,659
thereafter		7,883
	$	15,997

Rental expense under operating leases was $1.3 million in 2006, $1.1 million in 2005 and $977,000 in 2004.

Other Commitments

In the normal course of business, there are outstanding commitments to extend credit, which are not reflected in the consolidated financial statements. These commitments involve, to varying degrees, credit risk in excess of the amount recognized as either an asset or a liability in the balance sheet. The Bank controls the credit risk through its credit approval process. The same credit policies are used when entering into such commitments. Amounts committed to extend credit under normal lending agreements aggregated approximately $250.1 million for undisbursed variable loan commitments and approximately $12.1 million for commitments under unused letters of credit at December 31, 2006.

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments of $267.6 million, $188.1 million and $99.6 million at December 31, 2006, 2005 and 2004, respectively. The Bank's exposure to credit loss is limited to amounts funded or drawn; however, at December 31, 2006, no losses are anticipated as a result of these commitments.

Loan commitments are typically contingent upon the borrowers meeting certain financial and other covenants and such commitments typically have fixed expiration dates and require payment of a fee. As many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The Bank evaluates each potential borrower and the necessary collateral on an individual basis. Collateral varies, and may include real property, bank deposits, or business or personal assets.

Undisbursed loan commitments were comprised of the following at December 31, 2006:

Commercial	$ 152,910
SBA	9,242
Real estate construction	56,975
Real estate term	32,424
Factoring/ABL	5,297
Other	10,702
Total	$ 267,550

13. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The following estimated fair value amounts have been determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts.

The following table presents the carrying amount and estimated fair value of certain assets and liabilities of the Company at December 31, 2006, 2005 and 2004. The carrying amounts reported in the balance sheets approximate fair value for the following financial instruments: cash and due from banks, federal funds sold, interest bearing deposits in other banks, demand and savings deposits (see Note 3 for information regarding securities).

(dollars in thousands)	Year ended December 31,			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and due from banks	$ 24,360	$ 24,360	$ 22,880	$ 22,880
Federal funds sold	93,845	93,845	46,660	46,660
Investments securities	43,933	43,933	12,383	12,383
Loans and leases, gross	540,780	547,193	439,998	445,798
Bank owned life insurance	8,777	8,777	8,457	8,457
Financial liabilities:				
Deposits	644,987	639,784	468,158	464,000
Trust preferred securities	17,527	17,621	12,372	11,998
Other borrowings	-	-	10,000	10,000

Loans

The fair value of loans with fixed rates is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings. For loans with variable rates that adjust with changes in market rates of interest, the carrying amount is a reasonable estimate of fair value.

Time deposits

The fair value of fixed maturity certificates of deposit is estimated using rates currently offered for deposits of similar remaining maturities.

Commitments to extend credit and standby letters of credit

Commitments to extend credit and standby letters of credit are issued in the normal course of business by the Bank. Commitments to extend credit are issued with variable interest rates tied to market interest rates at the time the commitments are funded and the amount of the commitments equals their fair value. Standby letters of credit are supported by commitments to extend credit with variable interest rates tied to market interest rates at the time the commitments are funded.

14. BRIDGE CAPITAL HOLDINGS

The following are the financial statements of Bridge Capital Holdings (parent company only):

BALANCE SHEETS

(dollars in thousands)	As of December 31,	
	2006	2005
Assets:		
Cash and due from banks	$ 2,790	$ 1,979
Investment in bank & subsidiaries	63,435	50,018
Other assets	432	130
Total Assets	$ 66,657	$ 52,126
Liabilities:		
Junior Subordinated Debt	$ 17,527	$ 12,372
Other liabilities	36	41
Total Liabilities	17,563	12,413
Capital:		
Common stock	35,428	33,908
Retained earnings	5,908	183
Current year net income	8,634	5,725
Other Comprehensive income	(876)	(102)
Total Capital	49,094	39,714
Total Liabilities and Capital	$ 66,657	$ 52,126

STATEMENTS OF OPERATIONS

(dollars in thousands)	Year ended December 31,		
	2006	2005	2004
Interest income	$ 87	$ 31	$ 4
Interest expense	960	704	22
Noninterest expense	200	174	106
Income before income taxes	(1,073)	(847)	(124)
Income taxes	432	-	-
Income before undistributed income of the bank	(641)	(847)	(124)
Equity in undistributed income of the bank	9,275	6,572	3,161
Net income	$ 8,634	$ 5,725	$ 3,037

STATEMENTS OF CASH FLOWS

(dollars in thousands)	Year ended December 31, 2006	2005	2004
Cash Flow From Operating Activities:			
Net income (loss)	$ 8,634	$ 5,725	$ 3,037
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed (earnings) of subsidiaries	(9,275)	(6,572)	(3,161)
Net change in other assets	(161)	(9)	-
Net change in other liabilities	(6)	10	31
Net cash (used in) provided by operating activities	(808)	(846)	(93)
Cash Flow From Investing Activities:			
Investment in subsidiary	(4,155)		(10,441)
Net cash provided by financing activities	(4,155)	-	(10,441)
Cash Flow From Financing Activities:			
Proceeds from sale of Common stock	619	730	257
Proceeds from issuance of junior subordinated debentures	5,155		12,372
Net cash provided by financing activities	5,774	730	12,629
Net increase (decrease) in cash and equivalents	811	(116)	2,095
Cash and equivalents at beginning of period	1,979	2,095	-
Cash and equivalents at end of period	$ 2,790	$ 1,979	$ 2,095

15. REGULATORY MATTERS

The Bank and the Holding Company are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I capital (as defined in the regulations) to average assets (as defined in the regulations). Management believes, as of December 31, 2006, that the Company meets all capital adequacy requirements to which they are subject.

The following table shows the Company's capital ratios at December 31, 2006 and 2005 as well as the minimum capital ratios required to be deemed "well capitalized" under the regulatory framework.

(dollars in thousands)	As of December 31,			
	2006		2005	
	Amount	Ratio	Amount	Ratio
Company Capital Ratios				
Tier 1 Capital	$ 66,533	10.52%	$ 51,593	10.38%
(to Risk Weighted Assets)				
Tier 1 capital minimum requirement	$ 25,293	4.00%	$ 19,879	4.00%
Total Capital	$ 74,229	11.74%	$ 57,529	11.58%
(to Risk Weighted Assets)				
Total capital minimum requirement	$ 50,587	8.00%	$ 39,758	8.00%
Company leverage				
Tier 1 Capital	$ 66,533	10.97%	$ 51,593	11.07%
(to Average Assets)				
Total capital minimum requirement	$ 24,260	4.00%	$ 18,638	4.00%
Bank Risk Based Capital Ratios				
Tier 1 Capital	$ 64,145	10.15%	$ 49,748	10.49%
(to Risk Weighted Assets)				
Tier 1 capital minimum requirement	$ 25,272	4.00%	$ 18,970	3.82%
Total Capital	$ 71,474	11.31%	$ 55,684	11.74%
(to Risk Weighted Assets)				
Total capital minimum requirement	$ 50,544	7.99%	$ 37,939	7.63%
Bank leverage				
Tier 1 Capital	$ 64,145	10.59%	$ 49,748	9.98%
(to Average Assets)				
Total capital minimum requirement	$ 24,240	4.00%	$ 19,931	4.00%

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no current or anticipated changes in, or disagreements with, accountants on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Item 9a. Controls and Procedures

Disclosure Controls and Procedures

As required by SEC rules, the Company's management evaluated the effectiveness, as of December 31, 2006, 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 December 31, 2006.

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 or 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 fourth quarter of 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management's report on internal control over financial reporting is set forth below, and should be read with these limitations in mind.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on this assessment, management concluded that as of December 31, 2006, the Company's internal control over financial reporting was effective.

Vavrinek, Trine, Day & Co., LLP, the independent registered public accounting firm that audited the Company's financial statements included in the Annual Report, issued an audit report on management's assessment of the Company's internal control over financial reporting. Vavrinek, Trine, Day & Co.'s audit report appears on Page 49.

Item 9b. Other Information

Not applicable

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required hereunder is incorporated by reference from the Company's definitive proxy statement for the Company's 2007 Annual Meeting of Shareholders (to be filed pursuant to Regulation 14A).

Item 11. Executive Compensation

The information required hereunder is incorporated by reference from the Company's definitive proxy statement for the Company's 2007 Annual Meeting of Shareholders (to be filed pursuant to Regulation 14A).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following chart provides information as of December 31, 2006 concerning the Company's equity compensation plans:

	(A) Number of Securities To Be Issued Upon Exercise of Outstanding Options, Restricted Stock, Warrants, and Rights	(B) Weighted Average Grant Price of Outstanding Options, Restricted Stock, Warrants, and Rights	(C) Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)
Equity compensation plans approved by security holders	1,481,728	$ 10.74	279,185
Equity compensation plans not approved by security holders	-	-	-
Total	1,481,728	$ 10.74	279,185

The additional information required hereunder is incorporated by reference from the Company's definitive proxy statement for the Company's 2007 Annual Meeting of Shareholders (to be filed pursuant to Regulation 14A).

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required hereunder is incorporated by reference from the Company's definitive proxy statement for the Company's 2007 Annual Meeting of Shareholders (to be filed pursuant to Regulation 14A).

Item 14. Principal Accounting Fees and Services

The information required hereunder is incorporated by reference from the Company's definitive proxy statement for the Company's 2007 Annual Meeting of Shareholders (to be filed pursuant to Regulation 14A).

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements. This information is included in Part II, Item 8.

(a) (2) Financial Statement Schedules. All schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is included in Consolidated Financial Statements or notes thereto.

(a) (3) Exhibits. The exhibit list required by this item is incorporated by reference to the accompanying Exhibit Index filed as part of this report.

(b) See (a) (3).

(c) See (a) (2).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: March 1, 2007	By: /s/ Daniel P. Myers Daniel P. Myers, President (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/Richard M. Brenner Richard M. Brenner	Director	March 1, 2007
/s/Owen Brown Owen Brown	Director	March 1, 2007
/s/David V. Campbell David V. Campbell	Director	March 1, 2007
/s/Robert P. Gionfriddo Robert P. Gionfriddo	Director	March 1, 2007
/s/Allan C. Kramer, M.D. Allan C. Kramer, M.D.	Chairman Director	March 1, 2007
/s/Robert Latta Robert Latta	Director	March 1, 2007
/s/Thomas M. Quigg Thomas M. Quigg	Director	March 1, 2007
/s/Daniel P. Myers Daniel P. Myers	President Chief Executive Officer Director (Principal Executive Officer)	March 1, 2007
/s/Barry A. Turkus Barry A. Turkus	Director	March 1, 2007
/s/Thomas A. Sa Thomas A. Sa	Executive Vice President Chief Administrative Officer Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2007

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibit
(2.1)	Agreement and Plan of Reorganization among Bridge Capital Holdings and Bridge Bank dated as of October 1, 2004 [incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K dated 10/1/04]
(3.1)	Articles of Incorporation of the registrant [incorporated by reference to Exhibit 3(i)(a) to the registrant's Current Report on Form 8-K dated 10/1/04]
(3.2)	Amendment to the registrant's Articles of Incorporation dated August 27, 2004 [incorporated by reference to Exhibit 3(i)(b) to the registrant's Current Report on Form 8-K dated 10/1/04]
(3.3)	Registrant's By-Laws [incorporated by reference to Exhibit 3(i)(c) to the registrant's Current Report on Form 8-K dated 10/1/04]
(4.1)	Indenture dated as of December 21, 2004 between Bridge Capital Holdings and JP Morgan Chase Bank as Trustee [incorporated by reference to Exhibit 4.1 to the registrant's Annual Report on Form 10-K dated 12/31/04]
(4.2)	Amended and Restated Declaration of trust of Bridge Capital Holdings Trust I dated December 21, 2004 Trustee [incorporated by reference to Exhibit 4.2 to the registrant's Annual Report on Form 10-K dated 12/31/04]
(10.1)	Bridge Bank Amended and Restated 2001 Stock Option Plan [Incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K dated 12/31/04]**
(10.2)	Bridge Bank, National Association Supplemental Executive Retirement Plan [Incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K dated 12/31/04]**
(10.3)	Sublease for premises at 2120 El Camino Real, Santa Clara, California [Incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K dated 12/31/04].
(10.4)	Bridge Capital Holdings 2006 Equity Incentive Plan [Incorporated by reference to Annex A to the Registrant's Proxy Statement dated 04/07/06].
(10.5)	Lease for banking office located at 6601 Koll Center Parkway, City of Pleasanton, County of Alameda, State of California [incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2006].
(10.6)	Lease for banking office located at 525 University Avenue, City of Palo Alto, County of Santa Clara, State of California [Incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K dated 12/31/04].
(10.7)	Lease for banking office located at 3035 Prospect Park Drive, Suite 100, Rancho Cordova, County of Sacramento, State of California [Incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K dated 12/31/04].
(10.8)	Wire Transfer Service Agreement with BankServ, Inc dated 6/25/02 California [Incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K dated 12/31/04].
(10.9)	Performance Incentive Compensation Plan California [Incorporated by reference to Exhibit 10.9 to the Registrant's Annual Report on Form 10-K dated 12/31/04].**
(10.10)	Information Technology Services Agreement between Fidelity National Information Services and Bridge Bank, N.A. dated November 17, 2006 and the schedules thereto [incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K, Amendment No. 1, filed 02/16/07].

(10.11) Employment Agreements between Bridge Capital Holdings and Daniel P. Myers, Thomas A. Sa, Timothy W. Boothe, Robert P. Gionfriddo, and Kenneth B. Silveira [incorporated by reference to Exhibits 10.1, 10.2, 10.3, 10.4, and 10.5, respectfully, to the Registrant's Current Report on Form 8-K filed 02/16/07].**

(10.12) Form of Restricted Stock Purchase Award Agreement under the Bridge Capital Holdings 2006 Equity Incentive Plan [incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated 11/16/06].**

(10.13) Form of Stock Option Award Agreement under the Bridge Capital Holdings 2006 Equity Incentive Plan [incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated 11/16/06].**

(10.14) Amendment to the Company's 2001 Stock Option Plan to permit the net exercise of nonstatutory options [incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated 11/16/06].**

(10.15) Lease for Principal Executive Office and full service banking office located at 55 Almaden Boulevard, Suite 200, City of San Jose, County of Santa Clara, State of California [incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K dated 12/31/03].

(10.16) Lease for additional space (fourth floor) at the Principal Executive Office located at 55 Almaden Boulevard, Suite 200, City of San Jose, County of Santa Clara, State of California.

(21) Subsidiaries

(23.1) Consent of Independent Registered Public Accounting Firm – Vavrinek, Trine, Day & Co., LLP

(23.2) Consent of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP

(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

**Management contract or compensatory plan or arrangement

EXHIBIT 21

Subsidiaries of the Registrant

Name of Subsidiary	Jurisdiction of Formation
Bridge Bank, National Association	United States
Bridge Capital Holdings Trust I	California
Bridge Capital Holdings Trust II	California

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 of Bridge Capital Holdings (Nos. 333-123388 and 333-137745) of our report dated February 27, 2007 relating to the financial Statements, which appears in this Form 10-K.

Vavrinek, Trine, Day & Co., LLP

Palo Alto, California

March 1, 2007

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-123388 and 333-137745) of Bridge Capital Holdings of our report dated March 8, 2005 relating to the financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

San Francisco, California

March 1, 2007

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 annual report on Form 10-K of Bridge Capital Holdings for the year ended December 31, 2006;

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 fourth quarter of 2006 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: March 1, 2007

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

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 annual report on Form 10-K of Bridge Capital Holdings for the year ended December 31, 2006;

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 fourth quarter of 2006 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: March 1, 2007 /s/ Thomas A. Sa
Thomas A. Sa
Executive Vice President
Chief Administrative Officer
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

In connection with the accompanying Annual Report on Form 10-K of Bridge Capital Holdings for the year ended December 31, 2006, 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: March 1, 2007 /s/ Daniel P. Myers
Daniel P. Myers
President
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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

In connection with the accompanying Annual Report on Form 10-K of Bridge Capital Holdings for the year ended December 31, 2006, 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: March 1, 2007 /s/ Thomas A. Sa
Thomas A. Sa
Executive Vice President
Chief Administrative Officer
Chief Financial Officer
(Principal Financial Officer)