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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 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 ______

Commission File No. 0-20862

VINEYARD NATIONAL BANCORP
(Exact Name of Registrant as Specified in its Charter)

California (State or other jurisdiction of incorporation or organization)	33-0309110 (IRS employer identification number)
9590 Foothill Boulevard Rancho Cucamonga, California (Address of principal executive offices)	91730 (Zip Code)

Registrant's telephone number, including area code: (909) 987-0177

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

APPLICABLE TO CORPORATE ISSUER

Indicate the number of shares outstanding of the issuer's common stock on the latest practicable date: 9,432,239 shares of common stock as of May 1, 2006.

VINEYARD NATIONAL BANCORP AND SUBSIDIARY
FORM 10-Q INDEX
FOR THE PERIODS ENDED MARCH 31, 2006 AND 2005,
AND DECEMBER 31, 2005

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, the matters discussed in this Form 10-Q contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent estimates, projections and statements of beliefs of Vineyard National Bancorp concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as “believe,” “anticipate,” “expect,” “estimate,” “project,” “intend,” “will,” “may,” or words or phases of similar meaning. The Company cautions that the forward-looking statements are based largely on the expectations of the Company and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond the Company’s control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements contained herein. For a discussion of some of the risks and uncertainties that might cause such a difference, see Part I - Financial Information, Item 3. Quantitative and Qualitative Disclosures about Market Risk. Investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company will not update the forward-looking statements to reflect actual results or changes in the factors affecting the forwarding-looking statements.

PART I

ITEM I. FINANCIAL STATEMENTS

VINEYARD NATIONAL BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AT MARCH 31, 2006 AND DECEMBER 31, 2005

(Dollars in Thousands)	March 31, 2006 (unaudited)	December 31, 2005 (audited)
ASSETS		
Cash and cash equivalents	$ 42,799	$ 28,630
Investment securities, available-for-sale	237,970	248,694
Loans, net of unearned income	1,519,513	1,373,099
Less: Allowance for probable loan losses	(15,000)	(13,762)
Net Loans	1,504,513	1,359,337
Bank premises and equipment, net	19,352	19,192
Accrued interest	8,814	8,276
Federal Home Loan Bank ("FHLB") and other stock, at cost	16,169	19,155
Deferred income tax asset	12,267	11,646
Other assets	16,581	18,708
TOTAL ASSETS	$ 1,858,465	$ 1,713,638
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing	$ 173,975	$ 154,664
Interest-bearing	1,207,110	1,122,348
Total Deposits	1,381,085	1,277,012
FHLB advances and other borrowings	259,000	224,000
Subordinated debentures	5,000	5,000
Junior subordinated debentures	96,913	96,913
Accrued interest and other liabilities	18,901	10,728
TOTAL LIABILITIES	1,760,899	1,613,653
COMMITMENTS AND CONTINGENCIES (Note #3)		
Stockholders' Equity		
Contributed capital		
Perpetual preferred stock - authorized 10,000,000 shares		
Series C - no par value, issued and outstanding 10,000 shares in 2006 and 2005, respectively	9,665	9,665
Common stock - no par value, authorized 50,000,000 shares; issued and outstanding 9,432,239 and 9,427,690 shares in 2006 and 2005, respectively	59,886	60,972
Additional paid-in capital	752	4,443
Unallocated ESOP shares	(6,169)	(6,304)
Retained earnings	39,651	36,454
Accumulated other comprehensive loss, net of taxes	(6,219)	(5,245)
TOTAL STOCKHOLDERS' EQUITY	97,566	99,985
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,858,465	$ 1,713,638

See accompanying notes to financial statements.

VINEYARD NATIONAL BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(unaudited)

(Dollars in Thousands, except per share amounts)	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Interest Income		
Interest and fees on loans	$ 31,175	$ 19,716
Interest on investment securities	3,072	2,978
TOTAL INTEREST INCOME	34,247	22,694
Interest Expense		
Interest on savings deposits [1]	3,789	2,703
Interest on time deposits in denominations of $100,000 or more	3,780	1,474
Interest on other time deposits	2,947	1,220
Interest on FHLB advances and other borrowings	4,980	2,295
TOTAL INTEREST EXPENSE	15,496	7,692
NET INTEREST INCOME	18,751	15,002
Provision for Probable Loan and Lease Losses	(1,200)	-
NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOAN AND LEASE LOSSES	17,551	15,002
Other Income		
Fees and service charges	277	381
Gain on sale of SBA loans and broker fee income	544	657
Other income	110	75
TOTAL OTHER INCOME	931	1,113
Other Expense		
Salaries and employee benefits	6,501	4,924
Occupancy expense of premises	1,125	801
Furniture and equipment	993	738
Other	2,730	2,058
TOTAL OTHER EXPENSES	11,349	8,521
INCOME BEFORE INCOME TAXES	7,133	7,594
INCOME TAX PROVISION	2,972	3,177
NET INCOME	$ 4,161	$ 4,417
EARNINGS PER SHARE		
BASIC	$ 0.43	$ 0.47
DILUTED	$ 0.42	$ 0.45
CASH DIVIDENDS DECLARED PER SHARE	$ 0.08	$ 0.05
CASH DIVIDENDS PAID PER SHARE	$ 0.08	$ 0.05

See accompanying notes to financial statements.

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(1) Includes savings, NOW, and money market deposit accounts.

VINEYARD NATIONAL BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(unaudited)

(Dollars in Thousands)

	Perpetual Preferred Stock	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Unallocated ESOP	Accumulated Other Comprehensive Loss	Total
Balance December 31, 2004	$ -	9,581,941	$ 70,536	$ 3,772		$ 20,513	$ (6,856)	$ (2,738)	$ 85,227
Stock options exercised		127,475	751						751
Warrants exercised		4,410	30						30
Purchase of treasury stock		(202,170)	(6,003)						(6,003)
Release of ESOP shares				49			141		190
Cash dividends declared on common stock						(476)			(476)
Comprehensive income									
Net Income					$ 4,417	4,417			4,417
Unrealized security holding losses (net of $1,784 tax benefit)					(2,464)			(2,464)	(2,464)
Total comprehensive income					$ 1,953				
Balance, March 31, 2005	$ -	9,511,656	$ 65,314	$ 3,821		$ 24,454	$ (6,715)	$ (5,202)	$ 81,672

	Perpetual Preferred Stock	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Comprehensive Income	Retained Earnings	Unallocated ESOP	Accumulated Other Comprehensive Loss	Total
Balance December 31, 2005	$ 9,665	9,427,690	$ 60,972	$ 4,443		$ 36,454	$ (6,304)	$ (5,245)	$ 99,985
Stock options exercised		47,549	183						183
Purchase of treasury stock		(43,000)	(1,269)						(1,269)
Purchase of restricted stock				(919)					(919)
Reclassification of restricted stock awards				(2,821)					(2,821)
Share-based compensation expense				13					13
Release of ESOP shares				36			135		171
Cash dividends declared on preferred stock						(208)			(208)
Cash dividends declared on common stock						(756)			(756)
Comprehensive income									
Net Income					$ 4,161	4,161			4,161
Unrealized security holding losses (net of $705 tax benefit)					(974)			(974)	(974)
Total comprehensive income					$ 3,187				
Balance, March 31, 2006	$ 9,665	9,432,239	$ 59,886	$ 752		$ 39,651	$ (6,169)	$ (6,219)	$ 97,566

See accompanying notes to financial statements.

VINEYARD NATIONAL BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(unaudited)

(Dollars in Thousands)	Three Months Ended March 31, 2006	2005
Cash Flows From Operating Activities		
Net Income	$ 4,161	$ 4,417
Adjustments to Reconcile Net Income		
to Net Cash Provided by Operating Activities		
Depreciation	878	650
Investment securities accretion/amortization	145	269
Provision for probable loan losses	1,200	-
Provision for unfunded commitments	10	-
FHLB stock dividends	(220)	-
Amortization of intangible assets	3	3
Amortization of SBA servicing asset	137	179
Amortization of SBA interest only strip	31	26
Share-based compensation	13	-
Amortization of restricted stock awards	313	-
Reinvestment of mutual fund interest	(22)	(18)
Release of ESOP shares	171	190
Decrease in deferred tax assets	84	-
Increase in taxes payable	2,059	3,177
Increase in other assets	(1,181)	(1,556)
Decrease in cash surrender value of life insurance policies	3	-
Gain on sale of property, plant, and equipment	(4)	-
Gain on sale of loans	(207)	(290)
Increase/(decrease) in unearned loan fees	55	(66)
Increase in interest receivable	(538)	(710)
Decrease in interest payable	(234)	(163)
Increase/(decrease) in accrued expense and other liabilities	6,331	(987)
Total Adjustment	9,027	704
Net Cash Provided By Operating Activities	13,188	5,121
Cash Flows From Investing Activities		
Proceeds from principal reductions and maturities of		
mortgage-backed securities available-for-sale	8,922	9,452
Purchase of mortgage-backed securities available-for-sale	-	(66,908)
Purchase of FHLB & other stock	(2,914)	(517)
Redemption of FHLB stock	6,120	1,234
Recoveries on loans previously written off	47	24
Proceeds from sale of loans	3,696	44,062
Origination and purchase of loans, net of principal payments	(149,967)	(94,391)
Proceeds from sale of property, plant, and equipment	4	-
Capital expenditures	(1,038)	(1,792)
Net Cash Used In Investing Activities	(135,130)	(108,836)

(continued)

VINEYARD NATIONAL BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(continued)

(Dollars in Thousands)

	2006	2005
Cash Flows From Financing Activities		
Net increase in demand deposits, NOW accounts,		
savings accounts, and money market deposits	$ 61,344	$ 11,138
Net increase in certificates of deposits	42,729	70,535
Net change in FHLB advances	35,000	33,700
Purchase of treasury stock	(1,269)	(6,003)
Purchase of restricted stock	(919)	-
Dividends paid on preferred stock	(201)	-
Dividends paid on common stock	(756)	(476)
Proceeds from exercise of warrants	-	30
Proceeds from exercise of stock options	183	751
Net Cash Provided By Financing Activities	136,111	109,675
Net Increase in Cash and Cash Equivalents	14,169	5,960
Cash and Cash Equivalents, Beginning of year	28,630	22,551
Cash and Cash Equivalents, End of period	$ 42,799	$ 28,511
Supplemental Information		
Net change in unrealized loss on investment securities	$ 1,679	$ 4,248
Interest paid	$ 15,730	$ 7,855
Income tax paid	$ -	$ -

See accompanying notes to financial statements.

VINEYARD NATIONAL BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note #1 - Nature of Business and Summary of Significant Accounting Policies

Nature of Operations

The Company is a bank holding company. The Company's principal asset is the capital stock of the Bank, a California-chartered commercial bank, headquartered in the Inland Empire region of Southern California. The Bank operates twelve full-service banking centers within Los Angeles, Orange, Marin, Riverside, San Bernardino and San Diego counties of California, as well as three loan production offices in Anaheim, Carlsbad and Westlake Village, California. The Company is dedicated to relationship banking and the success of its customers. The Bank is focused on serving the needs of commercial businesses with annual sales of less than $50 million, retail community businesses, single-family residential developers and builders, individuals and local public and private organizations. The Company attracts deposits from the communities where it has established banking centers by offering competitive interest rate products and providing value-added customer services.

The accounting and reporting policies of Vineyard National Bancorp (the "Company") and its wholly-owned subsidiary, Vineyard Bank (the "Bank"), conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. In the opinion of management, the unaudited Consolidated Financial Statements contain all normal recurring adjustments necessary to present fairly the Company's consolidated financial position at March 31, 2006 and December 31, 2005, and the results of operations, changes in stockholders' equity and comprehensive income and results of cash flows for each of the three months ended March 31, 2006 and 2005.

Certain information and footnote disclosures normally presented in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's 2005 Annual Report on Form 10-K filed with the Securities Exchange Commission ("SEC") on March 14, 2006. The results for the three months ended March 31, 2006 and 2005 may not necessarily be indicative of the operating results for the full year.

A summary of the Company's significant accounting and reporting policies follows:

Principles of Consolidation

The Consolidated Financial Statements include accounts of the Company and the Bank. Inter-company balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, cash equivalents with a maturity of ninety days or less, and federal funds sold.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant changes relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is possible that the allowances for losses on loans and foreclosed real estate may change.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

Current Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R "*Share-Based Payment*" ("SFAS No. 123R"), which is a revision to SFAS No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123"), and which addresses the accounting for 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. This statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion ("APB") No. 25 ("APB No. 25"), and generally requires instead that such transactions be accounted for using a fair-value-based method. The statement does not change the accounting in SFAS No. 123, for transactions in which an enterprise exchanges its equity instruments for services of parties other than employees or the accounting for employee stock ownership plans, which are subject to American Institute of Certified Public Accountants ("AICPA") Statement of Position 93-6, "*Employers' Accounting for Employee Stock Ownership Plans"* ("SOP 93-6").

The phase-in period for this statement, as amended April 14, 2005 by the SEC, began in the first quarter of 2006. Based on the SEC's phase-in period, the Company adopted SFAS No. 123R on January 1, 2006 and accounts for share-based compensation based on this new pronouncement. The Company computes compensation expense for stock options using the Black-Scholes valuation model and utilizes the modified prospective method under SFAS No. 123R.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), which provided interpretative guidance on SFAS 123R valuation method assumptions used in valuation models and the interaction of SFAS No. 123R with existing guidance. The adoption of SFAS No. 123R and SAB No. 107 in the Company's fiscal quarter ended March 31, 2006 reduced earnings consistent with past pro-forma share-based compensation disclosures. See Note #2 for additional share-based compensation information.

In May 2005, FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections"* ("SFAS No. 154"). 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 a material impact on the financial condition or operating results of the Company.

In February 2006, FASB issued SFAS No. 155, "*Accounting for Certain Hybrid Instruments*" ("SFAS No. 155"), an amendment of SFAS No. 133 and SFAS No. 140. The provisions of this statement allow financial instruments that have embedded derivatives to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. The new statement also amends SFAS No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The provisions of this standard are effective as of the beginning of the Company's fiscal year 2007. The Company does not have any derivative instruments, and therefore does not expect the adoption of SFAS No. 155 to have a material impact on its consolidated financial statements.

In March 2006, FASB issued SFAS No. 156, "*Accounting for Servicing of Financial Assets — An Amendment of FASB Statement No. 140*," ("SFAS No. 156"). The provisions of this statement require mortgage servicing rights to be initially valued at fair value. SFAS No. 156 also allows servicers to choose one of the following measurement methods subsequent to the initial fair value measurement: (1) the "fair-value-measurement method", which measures servicing rights at fair value at each reporting date, with changes in fair value reported in earnings or (2) the "amortization method", which allows continued amortization of servicing rights over the period of estimated net servicing income or loss, consistent with the existing requirements of SFAS No. 140. The provisions of this standard are effective as of the beginning of the Company's fiscal year 2007. The Company currently uses the amortization method to account for its servicing rights, and expects to continue this practice after implementing SFAS No. 156. Therefore, the Company does not expect the adoption of SFAS No. 156 to have a material impact on the financial condition or operating results of the Company.

Note #2 - Share-Based Compensation

On January 1, 2006, the Company adopted the provisions of SFAS No. 123R and SAB No. 107, requiring the measurement and recognition of all share-based compensation under the fair value method. Prior to January 1, 2006, the Company accounted for share-based awards under APB No. 25, which resulted in compensation expense recorded only for restricted share awards.

The Company adopted SFAS No. 123R using the modified prospective transition method, therefore prior period results were not restated and do not reflect the recognition of share-based compensation. Under the modified prospective transition method, the Company is required to record share-based compensation expense for all awards granted after the adoption date and for the unvested portion of previously granted awards outstanding on the adoption date. Compensation cost related to the unvested portion of previously granted awards is based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123. Compensation cost for awards granted after the adoption date is based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. All option exercises result in the issuance of new shares.

The following table illustrates the effect on net income and earnings per share if the Company had implemented the fair value method of SFAS No. 123 during the quarter ended March 31, 2005:

(Dollars in Thousands, except per share amounts)		Three months ended March 31, 2005
Net income:		
Net income, as reported	$	4,417
Share-based compensation that would have been reported using the fair value method of SFAS No.123		(53)
Net income, pro-forma	$	4,364
Weighted average shares outstanding - basic		9,300,403
Weighted average shares outstanding - diluted		9,745,300
Basic EPS		
As reported	$	0.47
Pro forma	$	0.47
Diluted EPS		
As reported	$	0.45
Pro forma	$	0.45

Under the provisions of SFAS No. 123R, the Company began recognizing share-based compensation costs relating to stock option awards effective January 1, 2006 over the requisite service period of the award, which is generally the option vesting term. The Company measures the fair value of the award as of the award's grant date using the Black Scholes option pricing model. During the three months ended March 31, 2006 and 2005, the Company did not grant any stock option awards, and therefore no specific valuation assumptions are listed herein.

The Company's Consolidated Statement of Income for the three months ended March 31, 2006 included approximately $13,000 of share-based compensation expense relating to stock options as a result of adopting SFAS No. 123R. The Company continued to record compensation expense relating to restricted stock awards, which amounted to $0.3 million for the three months ended March 31, 2006. Also, $3.7 million of non-vested restricted stock awards, with a weighted average life of 3.1 years, was reclassified from "other assets" to "additional paid-in capital" as a result of adopting SFAS No. 123R. The Company implemented SFAS No. 123R prospectively, and as such, prior period information relating to restricted stock has not been adjusted.

The Company has outstanding stock options which were granted under the 1997 Incentive Stock Option Plan (the "1997 Plan"). A summary of stock option activity under the 1997 Plan during the three months ended March 31, 2006 is presented below:

(Dollars in Thousands, except per share amounts)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2005	427,155	$ 3.84	6.15 years	$ 745
Granted				
Exercised	(47,549)	3.84		(76)
Forfeited or expired				
Outstanding at March 31, 2006	379,606	$ 3.84	5.90 years	$ 669
Exercisable at March 31, 2006	379,606	$ 3.84	5.90 years	$ 669

A summary of stock option activity under the 1997 Plan during the three months ended March 31, 2005 is presented below:

(Dollars in Thousands, except per share amounts)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2004	572,125	$ 4.25	7.22 years	$ 1,111
Granted				
Exercised	(127,475)	5.89		(338)
Forfeited or expired				
Outstanding at March 31, 2005	444,650	$ 3.81	7.12 years	$ 773
Exercisable at March 31, 2005	404,101	$ 3.56	7.09 years	$ 662

A summary of the status of the Company's non-vested stock options as of December 31, 2005 and changes during the three months ended March 31, 2006 is presented below:

	Non-vested Shares	Weighted- Average Grant-Date Fair Value
Nonvested at December 31, 2005	7,997	$ 1.62
Granted		
Vested	(7,997)	1.62
Forfeited or expired		
Nonvested at March 31, 2006	-	$ -

A summary of the status of the Company's non-vested stock options as of December 31, 2004 and changes during the three months ended March 31, 2005 is presented below:

	Non-vested Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2004	93,749	$ 2.15
Granted		
Vested	(53,200)	1.72
Forfeited or expired		
Nonvested at March 31, 2005	40,549	$ 2.72

Note #3 - Commitments and Contingencies

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and letters of credit. To varying degrees, these instruments involve elements of credit and interest rate risk in excess of the amount recognized in the Company's Consolidated Financial Statements. The Company's exposure to credit loss in the event of non-performance by the other party to the financial instruments for undisbursed loan funds and letters of credit is represented by the contractual amount of those instruments. At March 31, 2006 and December 31, 2005, the amounts of the Company's undisbursed loan funds were $621.9 million and $595.3 million, respectively, and obligations under standby and commercial letters of credit were $4.5 million and $5.0 million for the same periods, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, income-producing commercial properties, residential properties and properties under construction.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Commercial letters of credit are conditional commitments issued by the Company to facilitate trade or commerce. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

In the normal course of business, the Company is subject to legal actions and complaints. At March 31, 2006, management is not aware of any material pending legal action or complaint asserted against the Company.

Note #4 - Dividends

On February 23, 2006, the Company's Board of Directors declared a $0.2 million cash dividend on the Series C Preferred Stock. The dividend was paid on April 3, 2006 to shareholders of record on March 1, 2006.

On January 3, 2006, the Company paid $0.2 million in Series C Preferred Stock cash dividends. The dividend was declared by the Company's Board of Directors on November 22, 2005 and was payable to shareholders of record as of November 22, 2005.

On February 9, 2006, the Company's Board of Directors declared a $0.08 per common share quarterly cash dividend. The dividend was paid on March 24, 2006 to shareholders of record on March 10, 2006.

Note #5 - Employee Stock Ownership Plan

During April 2004, the Company's Board of Directors approved the formation of a company-sponsored Employee Stock Ownership Plan (the "ESOP") under the Vineyard National Bancorp Employee Stock Ownership Plan Trust (the "ESOP Trust") for the benefit of the Company's eligible full-time employees. This leveraged ESOP is funded by a loan, which is secured by the ESOP shares. The number of shares released is based on the principal pay down of the loan balance. The amount of shares allocated to each participant under the ESOP is based on the employee's annual compensation. ESOP shares become fully vested to employees upon the completion of five years of service with the Company. ESOP participants are entitled to receive distributions from the ESOP account generally upon termination of service, which includes retirement and death.

To fund the purchase in the open market of shares of common stock of the Company, the ESOP Trust secured a loan in the amount of $7.0 million with a third party bank which was guaranteed by the Company. The ESOP loan bore a floating interest rate of 0.5% over the national prime rate and was scheduled to mature ten years after the date of initial advance. During the fourth quarter of 2004, the ESOP Trust refinanced the ESOP loan with a new note with the same terms through the Company and paid off the note with the third party bank, therefore eliminating the loan payable balance on the Company's financial statements. The outstanding balance of the ESOP loan is collateralized by the assets of the ESOP and is guaranteed by the Company. Dividends paid on the unallocated shares owned by the ESOP may be used to pay debt service or to pay trustee fees at the Company's election. Shares held by the ESOP are held by an independent trustee for allocation among participants as the loan is repaid.

The ESOP used the full amount of the loan to purchase 149,000 shares of the Company's common stock in the open market. As a result of the stock split in August 2004, the ESOP held 298,000 shares of the Company's common stock. The cost of shares held by the ESOP and not yet released or allocated to employees is reported as a reduction of stockholders' equity. Upon release of the shares, released shares of the ESOP are charged to compensation expense based on the fair value of the shares transferred, with a corresponding credit to the Company's equity. The Company recognized $0.2 million of compensation expense for the release of ESOP shares for the three months ended March 31, 2006 and 2005, respectively.

For purposes of earnings per share ("EPS") computations and in accordance with SOP 93-6, ESOP shares are treated as outstanding if they have been allocated to participants, released, or committed to be released. In December 2004, 6,006 shares were allocated to participants under the ESOP. In December 2005, 23,507 shares were allocated to participants under the ESOP. During the three months ended March 31, 2006, 662 of the allocated shares were forfeited due to participants' termination of employment. Forfeited shares are considered to be released but unallocated shares. The forfeitures resulted in a balance of 28,851 allocated shares. In January 2006, the Company released 5,716 shares in conjunction with a paydown of the ESOP loan. All shares released during 2006 will be allocated to participants in December 2006.

As of March 31, 2006, 28,851 of the ESOP shares are allocated to participants, and an additional 6,378 shares are released but unallocated to participants. The 269,149 unallocated shares represent 2.9% of the total number of common shares outstanding at March 31, 2006. The fair value of unallocated ESOP shares as of March 31, 2006 was $7.9 million.

Note #6 - Earnings per Share

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS:

(Dollars in Thousands)	Three Months Ended March 31,			
	2006		2005	
	Income	Shares	Income	Shares
Net income as reported	$ 4,161		$ 4,417	
Less: preferred stock dividends declared	(208)		-	
Shares outstanding at end of period		9,432,239		9,511,656
Unreleased and unallocated ESOP shares		(262,771)		(286,027)
Impact of weighting shares issued during the period		6,167		74,774
Used in basic EPS	$ 3,953	9,175,635	$ 4,417	9,300,403
Dilutive effect of outstanding stock options and warrants		341,311		444,897
Used in diluted EPS	$ 3,953	9,516,946	$ 4,417	9,745,300

Note #7 - Subsequent Events

On April 19, 2006, the Company, the Bank, and Rancho Bank ("Rancho"), a commercial bank headquartered in San Dimas, California, entered into an Agreement and Plan of Reorganization (the "Agreement"), pursuant to which, among other things, Rancho will be merged with the Bank, with the Bank as the surviving entity (the "Merger"). Under the terms and conditions of the Agreement, which has been unanimously approved by the Boards of Directors of the Company and Rancho, shareholders of Rancho will receive consideration of $38.50 per share for the 1,457,546 shares of Rancho common stock and $38.50 less the exercise price for each of the 66,730 stock options currently outstanding. The total merger consideration to Rancho shareholders of approximately $57.8 million will be paid in cash. The transaction is expected to close in the third quarter of 2006, pending the receipt of all requisite regulatory approvals and the approval of Rancho's shareholders.

Consummation of the Merger is subject to certain conditions, including, among others (i) approval of Rancho's shareholders, (ii) absence of any order or injunction prohibiting the consummation of the Merger, (iii) the receipt of certain regulatory approvals and (iv) the accuracy of representations and warranties made by the Company, the Bank, or Rancho, as applicable.

On April 26, 2006, the Company's Board of Directors declared a quarterly cash dividend of $0.08 per share, payable on June 9, 2006, to shareholders of record as of May 26, 2006.

On May 3, 2006, the Company entered into agreements with three institutional accredited investors with respect to the sale of an aggregate of $31.8 million of common stock in a registered direct offering. The shares were offered through a prospectus supplement pursuant to the Company's effective $125 million shelf registration statement. The transaction, which closed on May 5, 2006, involves the sale of 1.2 million shares of common stock at a purchase price of $26.50 per share.

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

Management's discussion and analysis of financial condition and results of operations is intended to provide a better understanding of the significant changes in trends relating to the Company's business, financial condition, results of operations, liquidity and interest rate sensitivity. The following discussion and analysis should be read in conjunction with the Company's quarterly unaudited Consolidated Financial Statements, and notes thereto, contained earlier in this Report.

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, management evaluates their estimates including those related to allowance for loan losses and the value of carried securities. Management bases their estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Business and Organization

Vineyard National Bancorp

The Company is a California-chartered bank holding company that commenced business in December 1988 when it acquired all of the voting stock of the Bank, a California-chartered commercial bank. The Bank commenced business in September 1981 as a national banking association and converted to a California bank charter and took its present name in August 2001. The Bank operates under the supervision of the California Department of Financial Institutions ("DFI") and the Federal Deposit Insurance Corporation ("FDIC"). On November 12, 2002, the Company's common stock was listed on the NASDAQ National Market System and is publicly traded under the symbol "VNBC". Prior to that, the Company's common stock was traded on the NASDAQ SmallCap Stock Market under the same symbol.

The Company's principal business is to serve as a holding company for the Bank and for other banking or banking-related subsidiaries which the Company may establish. The Company may, in the future, consider acquiring other businesses or engaging in other activities as permitted under the Federal Reserve Board (the "FRB") regulations. At March 31, 2006, the Company had consolidated total assets of $1.9 billion, total deposits of $1.4 billion and consolidated stockholders' equity of $0.1 billion.

Vineyard Bank

The Bank was organized as a national banking association under federal law and commenced operations under the name Vineyard National Bank on September 10, 1981. In August 2001, the Bank changed its name to Vineyard Bank and converted its charter to a California-chartered commercial bank and now operates under the supervision of the California Department of Financial Institutions (the "DFI") and the Federal Deposit Insurance Corporation (the "FDIC"). At that time, the Bank determined that it could better serve its customers by converting to a state bank, which provided the Bank with increased lending limits. The Bank's deposit accounts are insured by the FDIC up to the maximum amount permitted by law.

Management of the Bank anticipates continued growth and expansion into new product lines and geographic markets. The Company believes that a national bank charter is better aligned with its strategic plans. In addition to providing greater flexibility for expansion into new markets, a national bank charter would provide more consistency in the applicability of laws and regulations, as the Bank would be supervised by one bank regulatory agency. Accordingly, management submitted a conversion application in December 2005 to the Office of the Comptroller of the Currency ("OCC") to convert its existing charter to a national banking association charter. The Bank anticipates a decision by the OCC in the second quarter of 2006.

The Bank, which is the Company's wholly-owned subsidiary, is primarily involved in attracting deposits from individuals and businesses and using those deposits, together with borrowed funds, to originate various types of loans and invest in investment securities. The Bank operates twelve full-service banking centers located in each of the communities of Chino, Corona, Crestline, Diamond Bar, Irvine, Irwindale, La Verne, Lake Arrowhead, Manhattan Beach, Rancho Cucamonga, San Diego, and San Rafael, all of which are located within Los Angeles, Marin, Orange, Riverside, San Bernardino and San Diego counties in California. The Bank also has three loan production offices in Anaheim, Carlsbad and Westlake Village, California.

The San Rafael banking center, which was initially opened as a loan production office during 2005, was converted into a full-service banking center in March 2006. With the addition of the San Rafael banking center, the Bank anticipates extending further into Northern California in all of its loan specialty origination efforts. The Rancho Cucamonga office serves as the Company's headquarters.

The Bank's Strategic Plan

Since the hiring of its current president and chief executive officer in October 2000, the Bank has experienced significant growth pursuant to the successful execution of its strategic business plan, which emphasized organic growth through the expansion of its lending products and deposit services. As the Bank implemented its growth strategy, it added additional executive management personnel with developed business banking and service skills, concentrating on a sales and service approach to its banking business. In its recent three-year strategic plan, the Bank's management team has focused its efforts in developing a customer-oriented service philosophy, while expanding the Bank's lending products by creating various specialty lending groups. The Bank believes that expanding many of its existing relationships will continue to be an effective source of new business opportunities.

The Bank is currently focused on providing relationship banking services to the following markets:

(i) the Inland Empire region of Southern California, which primarily includes San Bernardino and Riverside Counties;
(ii) the coastal communities of Los Angeles, California;
(iii) the San Gabriel Valley region of Los Angeles;
(iv) the coastal communities of south Orange County and San Diego; and
(v) Marin County, California.

The Bank has targeted these markets because of its experience in and knowledge of, as well as the anticipated continued growth and potential for development in, these markets.

Specialty Product Offering. The Bank has emphasized the organic growth of its loan portfolio by augmenting its traditional commercial and residential loans and services with several specialty lending divisions. These divisions are each staffed with experienced professionals and are focused on maintaining long-term relationships with independent builders within the housing construction marketplace, asset management professionals in the multi-family housing sector and experienced investors in the commercial income property field. To fund the growth of the loan portfolio, the Bank has emphasized organic deposit growth. The Company's strategic plan includes a focus on specialty lending and funding products, which are described as follows:

- <u>Coastal Construction Lending</u> The Bank originates high-end single-family construction loans within Los Angeles' "south bay" coastal communities (primarily Manhattan Beach, Hermosa Beach and Redondo Beach, as well as the Palos Verdes Peninsula area), Los Angeles' upper end "west side" (including Beverly Hills, Brentwood and Malibu) and Orange County coastal regions where it believes it has a competitive advantage based on established builder and customer relationships and expertise in the construction market. The demand for new luxury construction in many of these communities continues to be strong. These types of construction loans typically range from $1.0 million to $5.0 million. During the three months ended March 31, 2006, gross commitments generated for this loan product amounted to $138.4 million. The Bank's single-family residential coastal construction loans outstanding amounted to $456.8 million and $392.2 million at March 31, 2006 and December 31, 2005, respectively, net of participations sold of $100.0 million and $114.7 million, respectively.

- <u>Tract Construction Lending</u> The Bank originates single-family residential tract construction loans, primarily secured by newly-constructed, entry to mid-level detached and attached homes. While these loans are predominantly originated within the Inland Empire of Southern California, the Bank has financed projects throughout California. Its builders operate within approximately twenty communities where demand for new affordable housing is consistently exceeding new production supply, with a substantial amount of new housing starts pre-sold to qualified buyers. The Inland Empire's resale and new home markets continue to be supported by a growing labor base and relatively low mortgage rates. These types of construction loans typically range from $3.0 million to $10.0 million. During the three months ended March 31, 2006, gross commitments generated for this loan product amounted to $80.4 million. The Bank's single-family residential tract construction loans amounted to $146.9 million and $129.7 million at March 31, 2006 and December 31, 2005, respectively, net of participations sold of $11.0 million and $11.6 million, respectively.

- <u>SBA Lending</u> The Bank offers SBA 7(a) and 504 loans to small businesses throughout its market area. The Bank emphasizes these types of loans, as they are a complement to the Bank's focus on strengthening and supporting the local communities. The Company had $16.7 million and $12.8 million of outstanding SBA loans at March 31, 2006 and December 31, 2005, respectively, net of participations sold of $41.9 million and $42.0 million, respectively.

- Religious Lending The Bank originates religious loans, which are comprised of loans to churches and private schools throughout its market area. The Bank emphasizes these types of loans, as they are a complement to the Bank's focus on strengthening and supporting the local communities. Loans to religious organizations amounted to $34.1 million and $30.3 million at March 31, 2006 and December 31, 2005, respectively.

- Income Property Lending The Bank has an income property lending division to service the growing markets for commercial real estate and multifamily/apartments in Southern California. The commercial real estate portfolio includes office buildings, retail outlets and industrial warehouses, the majority of which are located in the Inland Empire region, and Los Angeles and Orange counties. The Southern California office market has witnessed strong demand for space, as evidenced by decreased vacancy rates. The Bank's multifamily/apartment loan portfolio is centered in Los Angeles and Orange counties, with some lending in the Inland Empire region. Given the relatively high home prices in Southern California, the apartment market has experienced solid rental performance. Vacancy rates remain relatively low as renters are finding little product available for lease. Commercial real estate loans generated from this division typically range from $2.0 million to $10.0 million, while apartment loans typically range from $0.5 million to $5.0 million. At March 31, 2006 and December 31, 2005, the balance of loans generated from this division amounted to $308.6 million and $264.1 million, respectively, for commercial real estate loans and $248.9 million and $234.4 million, respectively, for apartment loans.

- Community Banking Group In order to expand the Bank's core deposit franchise, the Community Banking Group of the Bank has focused on offering competitive interest rate products and providing value-added services by introducing additional products and services. The Company's core deposit franchise has been built around the community banking system, which has resulted in deposit growth of 8.1% for the three months ended March 31, 2006. The Community Banking Group also focuses on commercial and business banking and the origination of commercial business loans.

    - Commercial and Business Banking The Bank is committed to providing customized credit solutions to assist customers in remaining competitive in their respective marketplaces. To this end, the Bank has coupled convenience and technology in expanding its deposit franchise, while supplementing customer service with new and complementary products. Business deposits have been pursued by offering an expanded courier network, by the introduction of cash management products and by specific targeting of small business customers. The Bank intends to capture additional business accounts by bundling new products and services with other cash management services. Expanded courier services and technology-based products contribute to providing a high level of service to its business clientele.

    - Commercial Business Loans The Bank originates commercial business loans which generally consist of loans to small businesses. The Bank offers business revolving lines of credit, to ensure that businesses' operating capital needs are met in a timely manner. Commercial loans in the SBA's 7(a) program are also included in this category.

Each of the foregoing specialty lending groups and depository services brings diversity to the Bank's existing product lines, offering its customers greater flexibility while providing additional opportunities for the Bank to serve new customers within its primary market areas. The Bank will also seek to enter additional geographic markets or expand in existing markets through acquisitions of branches or whole institutions and through opening de novo banking centers. The Bank will target these new markets for their similar demographics to the Bank's current markets. This strategic expansion is consistent with the Bank's focus on creating and building new banking relationships and generating greater funding to facilitate additional loan growth.

Loan and Deposit Growth. The Bank has emphasized the origination of certain loan products to achieve the desired loan portfolio mix. Beginning in 2004, the Bank has actively managed the product concentrations within the loan portfolio by selling participations and purchasing loans. During the three months ended March 31, 2006, the Bank sold $3.4 million in SBA loans. The Bank also purchased $8.4 million in consumer loans to help achieve the intended loan portfolio mix. These activities will continue to be an integral part of the Bank's strategic plan to diversify risk, income sources and product/geographic concentrations within the loan portfolio.

The Bank's net growth in deposits was 8.1% for the three months ended March 31, 2006 and 8.5% for the same period in 2005. The Bank sets forth an intended deposit mix, which affords the Bank a blended cost of funds at an appropriate volume to support the lending initiatives of the Bank. In order to achieve the desired distribution, the Bank offers various interest-bearing promotional products. In addition to the desired deposit mix, the Bank has a desired level of 20% of the deposit market share and a minimum target of 10% of the deposit market share in each of the twelve banking center communities.

The Company will continue to focus on obtaining core deposits to support the growth of the loan portfolio. The Company will focus on organic, or internal, deposit and lending growth by positioning new teams within new markets and expanding the community banking base within existing markets. The expanded banking base will be achieved through a broadening of commercial and business banking, expanded private banking and services for entrepreneurs, and enhanced corporate cash management.

Relationship Banking Facilities. In order to provide the highest level of relationship banking, the Bank has redesigned the majority of its existing banking centers. The Bank believes that relationship management is best delivered in contemporary, well appointed and efficient banking centers that provide each of its personnel with a full array of technologically advanced tools and products. The conversion of these facilities began in 2004 and continued through 2005. The Bank will complete its banking center redesigns in 2006. The refurbished banking centers will also help to provide improved customer service, as the traditional branch design with teller lines and desks has been replaced with client service desks, equipped with state-of-the-art cash recyclers/dispensers. The Bank's ATM system was also replaced with current technology that acts as a complement to the redesigned banking centers.

Strategic Expansion.

Based on the success of the Company's strategic plan, which is now in its sixth year, the Company is enhancing several strategic initiatives to facilitate its financial growth and facility expansion over the next three years and beyond.

The Company's strategic expansion includes the following initiatives relating to the growth of its lending and funding products:

- <u>Specialty Group Organization</u> The Company believes that it can facilitate continued loan and deposit growth by the identification of new and the continued organization of lending and funding specialty groups. The loan and deposit portfolios are sectioned into specialty products, and each product base is enhanced by a group of seasoned banking professionals who have expertise in their specialty product and are able to offer a high level of service and maintain long-term customer relationships. The Company will continue to identify new specialty groups with new products to generate volume in both loans and deposits and to diversify the existing loan and deposit portfolios. In addition, the Company will focus on expanding the existing specialty groups to generate a higher volume of loans and deposits.

- <u>Organic Deposit and Lending Growth</u> The Company plans to achieve a consistent growth in its deposit and lending base through the retention and expansion of community banking relationships. The Company will also expand its presence in existing markets and enter new geographic markets through the hiring of new business development individuals or teams.

- <u>Strategic Acquisitions</u> In alignment with the Company's strategic plan, it may consider making strategic acquisitions of whole banks or individual branches. The Company will consider making acquisitions that are complements to its existing products and services, complements to its current geographic and demographic footprints, and are accretive to earnings.

- <u>Capital Strategy</u> The Company's strategic plan includes various methods of generating capital. The Company may offer and sell securities in order to raise additional capital. To that end, the Company recently filed a shelf registration with the SEC, which provides the Company with the flexibility to publicly issue in the future up to $125 million in debt and/or equity securities. In addition, the Company may raise capital through private transactions or through the private issuance of trust preferred securities. The Company's objective with its capital strategy is to maintain consistent capital ratios for both the Company and the Bank, while having a minimal dilutive impact to shareholders.

By incorporating the strategies discussed above, the Bank will continue to operate and expand within the following geographic markets of California:

1) Los Angeles County - The Bank will continue to focus on expanding high-end single family construction lending, commercial income property lending and SBA lending in the Los Angeles market area. To continue growing in this "established market", the Bank will seek to attract commercial deposit accounts and further establish its deposit base. Greater effort will be made in the area of commercial and business lending along with corporate cash management services.

2) Orange County - The Bank will expand its existing lending products, including commercial income property, SBA and high-end single family construction in Orange county and surrounding areas. Additionally, the Company anticipates capturing new depository relationships in commercial and business banking, services for entrepreneurs, cash management and community banking operations in the Irvine office.

3) San Diego County - The SBA division of the Bank has been operating out of San Diego over the last three years and will continue to expand its product in the San Diego market along with commercial income property lending and high-end single family construction lending. A new loan production office was opened in Carlsbad in 2005 as a satellite extension of the San Diego office. In early 2006, the Bank acquired a new team of deposit relationship managers as the San Diego office was converted to a full-service banking center for the purpose of commercial and business banking, services for entrepreneurs, cash management and community banking operations.

4) Riverside & San Bernardino Counties - The Bank's presence in these areas includes primarily single family residential tract construction lending as the population of home buyers migrate towards this area. The Bank will seek opportunities to offer its other lending products including high-end single family construction, commercial income property and SBA.

5) Marin County - The Bank has recently entered the northern California market with a de novo banking center. The San Rafael office was staffed and opened in September 2005 as a loan production office to expand and enhance the Bank's existing lending products including commercial income property, high-end single family construction, single family residential tract construction and SBA lending. A full-service banking center operation began in March 2006 with the acquisition of a new local banking team concentrating on new depository relationships.

In summary, the Company continues to realize its strategic plan through the branding and marketing of the Vineyard franchise name by targeting specific geographic and product markets. The Company's lending and funding strategies are organized by specialty groups:

- Single Family Residential Coastal Construction
- Single Family Residential Tract Construction
- SBA Lending
- Religious Financial Services
- Income Property (commercial and multifamily loan products)
- Community Banking Group
  - Commercial and Business Banking
  - Commercial Business Lending

In its organic lending and deposit growth strategy, the Company continues its community positioning and expansion within its current markets and acquisitions of banking teams in new growth markets. Acquisitions of existing institutions will be based on the Company's strategic drivers.

Asset Growth. The Company's total assets as of March 31, 2006 were $1.9 billion as compared to $1.7 billion as of December 31, 2005. At March 31, 2006, the Bank had $0.5 million of non-performing loans and no other real estate owned. At December 31, 2005, the Bank had $1.0 million of non-performing loans and no other real estate owned.

Results of Operations

During the three months ended March 31, 2006, operating results demonstrated a steady growth over the same period in 2005 as the volume of earning assets increased. Average gross loans for the three months ended March 31, 2006 were $1.4 billion as compared to $1.0 billion for the same period in 2005. Average investment securities remained stable at $0.3 billion for the three months ended March 31, 2006 and 2005. Average investment securities balances are based on historical amortized cost. The growth in the Company's earning assets during the three months ended March 31, 2006 was mainly funded by increased deposits and FHLB advances.

Net income for the three months ended March 31, 2006 and 2005 was $4.2 million and $4.4 million, respectively, representing a decrease of 5.8% for the three months ended March 31, 2006 as compared to the same period in 2005. The decrease occurred as the growth rate of non-interest expense exceeded the growth rate of net interest income, increasing the efficiency ratio for the three months ended March 31, 2006 to 57.7% from 52.9% for the same period in 2005. These increases in non-interest expense resulted from the Company's strategy to build its infrastructure. The decrease was also a result of the lower non-interest income for the three months ended March 31, 2006 as compared to the same period in 2005. The decrease of $0.2 million was caused by a decrease in fees and service charges as well as a decrease in gains and broker fee income from the sale of SBA loans. A further reason for the decrease in net income is the $1.2 million provision for loan losses, which was recorded during the three months ended March 31, 2006, in order to support the risks associated with the growth of the loan portfolio. Management did not record a provision for loan losses during the three months ended March 31, 2005 as a result of the moderate loan growth offset by loan participations. Management's analysis of the risks associated with the loan portfolio at March 31, 2005 did not necessitate an increase in the provision. On a per diluted share basis, net income was $0.42 and $0.45 for the three months ended March 31, 2006 and 2005, respectively.

The Company's net interest income before provision for probable loan losses increased by $3.7 million or 25.0% for the three months ended March 31, 2006 as compared with the same period in 2005. Non-interest income decreased by $0.2 million or 16.4% for the three months ended March 31, 2006 as compared to the same period in 2005. The lower non-interest income for the three months ended March 31, 2006 compared to the same period in 2005 relates mainly to the decrease of $0.1 million in fees and service charges and a decrease of $0.1 million from gain on the sale of SBA loans and the related broker fee income. Total net revenue (defined as non-interest income plus net interest income before provision for probable loan losses) for the three months ended March 31, 2006 increased by $3.6 million or 22.1% as compared to the same period in 2005.

Total non-interest expense was $11.3 million and $8.5 million for the three months ended March 31, 2006 and 2005, respectively. This represents an increase of $2.8 million or 33.2% for the three month period. The largest item contributing to non-interest expense was salaries and employee benefits which represented more than 50% of total non-interest expense for both periods. The Company continued to hire additional personnel to support its growth in the first quarter of 2006. The Company's efficiency ratio, which is a measure of non-interest expense divided by net interest income before provision for probable loan losses plus non-interest income, increased from 52.9% to 57.7% for the three months ended March 31, 2005 and 2006, respectively.

For the three months ended March 31, 2006, the provision for federal and state income taxes was $3.0 million while the provision for federal and state income taxes was $3.2 million for the same period in 2005. These provisions for income taxes represent effective tax rates of 41.7% for the three months ended March 31, 2006 and 41.8% for the same period in 2005.

The Bank's loan losses continued to be minimal, producing approximately $38,000 in net recoveries for the three months ended March 31, 2006, compared to approximately $8,000 in net recoveries for the same period in 2005 and $0.1 million in net charge-offs for the year ended December 31, 2005. The Company recorded a provision to the allowance for probable loan losses of $1.2 million for the three months ended March 31, 2006 and did not record a provision for the same period in 2005. The allowance for probable loan losses was $15.0 million or 1.0% of gross loans at March 31, 2006 as compared to $13.8 million or 1.0% of gross loans at December 31, 2005. Based on management analysis, the allowance for probable loan losses is adequate as of March 31, 2006. However, no assurance can be made that further additions to the allowance will not be necessary.

The reserve for unfunded commitments was $1.4 million and $1.3 million as of March 31, 2006 and December 31, 2005, respectively. The allowance for probable loan losses and the reserve for unfunded commitments totaled $16.4 million or 1.1% of gross on-balance sheet loans at March 31, 2006.

At March 31, 2006, the Company had $0.5 million of non-performing loans and no other real estate owned, representing 0.03% of non-performing loans to gross loans. At December 31, 2005, the Company had $1.0 million of non-performing loans and no other real estate owned.

Net Interest Income

The Company's earnings are derived predominately from net interest income, which is the difference between the interest income earned on interest-earning assets, primarily loans and securities, and the interest expense incurred on interest-bearing liabilities, primarily deposits and borrowings. The net interest margin is the net interest income divided by the average interest-earning assets. Net interest income and net interest margin are affected by several factors including (1) the level of, and the relationship between, the dollar amount of interest-earning assets and interest-bearing liabilities; (2) the relationship between repricing or maturity of the Company's variable rate and fixed rate loans and securities, and its deposits and borrowings; and (3) the magnitude of the Company's non-interest earning assets, including non-accrual loans and other real estate owned.

The Company's net interest margin has declined as a result of a change in the mix of assets and liabilities. Starting in 2005, the Company began to diversify its asset portfolio to minimize risk. Therefore, the Company has focused on increasing its income property loan originations, instead of higher yielding construction loans, in order to maintain the loan portfolio mix set forth by its strategic plan. Additionally, for the three months ended March 31, 2006, as compared to the same period in 2005, the Company's loan portfolio growth exceeded its deposit growth, thus creating a need for higher cost borrowings, such as FHLB advances and junior subordinated debentures. These changes compressed the margin, as the cost of funds increased due to the higher borrowing rates. The Company will continue to focus on obtaining low cost deposits to support the growth of the loan portfolio and to reduce its borrowings, and will continue to adjust and refine its asset/liability management strategy to minimize interest rate risk and maximize its net interest income.

Total interest income for the three months ended March 31, 2006 and 2005 was $34.2 million and $22.7 million, respectively, while total interest expense was $15.5 million and $7.7 million for the same periods, respectively. Therefore, the net interest income was $18.8 million and $15.0 million, respectively, for the same periods.

For the three months ended March 31, 2006, loan fee income represented $3.1 million or 9.1% of the $34.2 million in interest and fees on loans. For the three months ended March 31, 2005, loan fee income was $2.4 million or 12.4% of the $19.7 million in interest and fees on loans. Loan origination fees, net of loan origination costs, are deferred and amortized over the expected life of the loan. The amortized amount, combined with the interest income earned from the note rate, creates the effective loan yield for that period. Construction loans and commercial real estate loans generate the majority of loan origination fee income. The amortized loan fee income earned has increased while the percentage of such loan fees earned has decreased as a percentage of total interest and fees, due to the origination of longer duration assets, such as commercial real estate loans, whereby fees are amortized over a longer period. The percentage decrease in fees is a result of the strategy to diversify the loan portfolio.

The FRB has raised the overnight borrowing rate 25 basis points in each of their meetings since June 2004, which amounted to a 125 basis point increase in 2004, a 200 basis point increase in 2005, and a 50 basis point increase in the first quarter of 2006, for a total 375 basis point increase. The prime rate at March 31, 2006 was 7.75%, and is the main driver for interest rate increases.

For the three months ended March 31, 2006, the Company experienced an increase in the yield on its total interest-earning assets primarily due to the growth of the loan portfolio and the repricing of existing loans at higher interest rates. Yields on total interest-earning assets increased from 7.0% to 8.1% for the three months ended March 31, 2005 and 2006, respectively. The Company's average loan balance was 84.2 % of total average interest-earning assets for the three months ended March 31, 2006 as compared to 78.7% of total average interest-earning assets for the same period in 2005. The majority of investment securities are fixed-rate, and thus the yield from investments does not increase as the market rates increase.

The cost of interest-bearing liabilities increased from 2.7% to 4.2% for the three months ended March 31, 2005 and 2006, respectively, as a result of the rising interest rate environment. FHLB advances were increased during 2006 to help fund the growth of the loan portfolio. The Company is increasing its focus and efforts on providing deposit growth through its existing community banking network, developing its commercial and business banking initiatives, as well as increasing strategic recruitment of personnel in both of these areas. The Company's efforts continue to be focused on the measured growth of all earning assets which complement a well-balanced loan and investment securities portfolio, funded by deposit relationships.

Interest expense on deposits totaled $10.5 million for the three months ended March 31, 2006, respectively, as compared to $5.4 million for the same period in 2005, respectively, representing an increase of $5.1 million. The increase in interest expense is mainly associated with an increase in the Company's average interest-bearing deposits coupled with an increase in interest rates. Average interest bearing deposits increased from $0.9 billion for the three months ended March 31, 2005 to $1.1 billion for the same period in 2006.

The average interest cost on FHLB and other borrowings increased from 2.4% for the three months ended March 31, 2005, to 4.6% for the same period ended 2006, as interest rates were higher during the first quarter of 2006 compared to the same period in 2005. The cost of subordinated debt increased from 5.9% for the three months ended March 31, 2005 to 7.8% for the same period in 2006. Similarly, the cost of junior subordinated debentures increased from 5.7% for the three months ended March 31, 2005 to 7.2% for the same period in 2006. These increases are also a result of the higher interest rates in 2006, as these debt securities bear variable interest rates indexed to LIBOR that adjust on a quarterly basis.

The aforementioned changes in the Company's interest-earning assets and interest-bearing liabilities, along with changes in the interest rates, resulted in a net interest margin of 4.4% for the three months ended March 31, 2006. This margin represents a decrease from the 4.6% level of the same period in 2005.

The following table presents the distribution of the Company's average assets, liabilities and stockholders' equity in combination with the total dollar amounts of interest income from average interest earning assets and the resultant yields without giving effect for any tax exemption, and the dollar amounts of interest expense and average interest bearing liabilities, expressed both in dollars and rates for the three months ended March 31, 2006 and 2005. Loans include non-accrual loans where non-accrual interest is excluded.

(Dollars in Thousands)	For the three months ended March 31,					
	2006			2005		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets						
Loans [1]	$ 1,440,184	$ 31,175	8.8%	$ 1,039,428	$ 19,716	7.7%
Investment securities [2]	254,017	2,872	4.6%	269,308	2,870	4.3%
Federal funds sold	289	3	4.2%	276	2	2.9%
Other investments	16,218	197	4.9%	11,594	106	3.7%
Total interest-earning assets	1,710,708	34,247	8.1%	1,320,606	22,694	7.0%
Other assets	78,817			59,480		
Less: allowance for probable loan losses	(14,170)			(13,007)		
Total average assets	$ 1,775,355			$ 1,367,079		
Liabilities and Stockholders' Equity						
Savings deposits [3]	$ 458,256	3,789	3.4%	$ 458,935	2,703	2.4%
Time deposits	659,458	6,727	4.1%	405,111	2,694	2.7%
FHLB advances and other borrowings	277,361	3,141	4.6%	206,738	1,222	2.4%
Subordinated debt	5,000	98	7.8%	5,000	73	5.9%
Junior subordinated debentures	96,913	1,741	7.2%	71,139	1,000	5.7%
Total interest-bearing liabilities	1,496,988	15,496	4.2%	1,146,923	7,692	2.7%
Demand deposits	161,937			125,546		
Other liabilities	14,595			9,295		
Total average liabilities	1,673,520			1,281,764		
Stockholders' equity	101,835			85,315		
Total liabilities and stockholders' equity	$ 1,775,355			$ 1,367,079		
Net interest spread [4]			3.9%			4.3%
Net interest income and net interest margin [5]		$ 18,751	4.4%		$ 15,002	4.6%

(1) Interest on loans includes loan fees, which totaled $3.1 million and $2.4 million for the three months ended March 31, 2006 and 2005, respectively.
(2) The yield for securities that are classified as available-for-sale is based on historical amortized cost balances.
(3) Includes savings, NOW and money market deposit accounts.
(4) Net interest spread represents the average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
(5) Net interest margin is computed by dividing net interest income by total average earning assets.

Provision for Probable Loan Losses

For the three months ended March 31, 2006 and 2005, the provision for probable loan losses was $1.2 million and $0, respectively.

The Company's allowance for probable loan losses was $15.0 million at March 31, 2006 and $13.8 million at December 31, 2005. Additions to the allowance are affected through the provision for probable loan losses. Also affecting the allowance are loans charged off and loans recovered. The Company had net recoveries which were less than 0.01% of the loan portfolio for both periods. The reserve for unfunded commitments was $1.4 million and $1.3 million as of March 31, 2006 and December 31, 2005, respectively. The ALLL and the reserve for unfunded commitments totaled $16.4 million or 1.1%, and $15.1 million or 1.1% of gross on-balance sheet loans at March 31, 2006 and December 31, 2005, respectively.

Although the Company maintains an allowance for probable loan losses at a level it considers to be adequate to provide for losses, based on presently known conditions, there can be no assurance that such losses will not exceed the estimated amounts, thereby adversely affecting future results of operations. The calculation for the adequacy of the allowance for probable loan losses, and therefore the requisite amount of the provision for probable loan losses, is based on several factors, including market condition, underlying loan collateral, delinquency trends, borrowers' cash flow and historic loan loss experience. All of these factors can change without notice based on market and economic conditions and other factors beyond the control of management.

Non-Interest Income

Non-interest income for the three months ended March 31, 2006 and 2005 was $0.9 million and $1.1 million, respectively. This represents a decrease of $0.2 million or 16.4%.

The Company generally sells the guaranteed portions of SBA loans originated, and has also sold the unguaranteed portion of certain SBA loans. The gain on SBA loans sold, combined with broker fee income associated with SBA 504 program loan sales, amounted to $0.5 million and $0.7 million for the three months ended March 31, 2006 and 2005, respectively. Income from fees and service charges was $0.3 million and $0.4 million for the three months ended March 31, 2006 and 2005, respectively. For the three months ended March 31, 2006 and 2005, there was no gain on sale of securities and non-SBA loans.

Non-Interest Expenses

The Company's non-interest expense for the three months ended March 31, 2006 and 2005 was $11.3 million and $8.5 million, respectively. This represents an increase of $2.8 million or 33.2%. Non-interest expense consists primarily of (i) salaries and employee benefits, (ii) occupancy expense, (iii) furniture and equipment expenses and (iv) marketing, office supplies, postage and telephone, insurance, data processing, professional fees, administrative, business development, and other non-interest expense. A new component of non-interest expense is the provision for unfunded commitments, which was previously included as a component of the provision for loan losses. Prior period balances have been reclassified to present the provision for unfunded commitments as a component of non-interest expense, in accordance with generally accepted accounting principles.

(i) Salaries and employee benefits is the largest component of non-interest expense. As the Bank has continued to grow, personnel have been placed in business development capacities for commercial and community banking, as well as administrative functions. With the expansion of loan production offices into full-service banking centers and the opening of new loan production offices, the Bank has recruited seasoned banking professionals to contribute to the continued growth as well as provide the infrastructure needed to support longer-term growth. These infrastructure changes have increased the Company's salaries and employee benefits expense by $1.6 million or 32.0% to $6.5 million for the three months ended March 31, 2006 as compared to the same period in 2005.

(ii) Occupancy expense amounted to $1.1 million for the three months ended March 31, 2006, in comparison to $0.8 million for the same period in 2005. This represents an increase of $0.3 million or 40.4% over the same prior period. The increase in occupancy expense is primarily due to the Company's expansion. During 2005, the Company moved its administrative headquarters to a 45,000 square foot facility in Corona Pointe, increasing its occupancy costs. The Bank also opened a loan production office in Westlake Village and expanded the San Rafael loan production office into a full-service banking center during the first quarter of 2006. In 2005, the Company added a Carlsbad loan production office and has expanded the San Diego facility, contributing to the higher occupancy expense for the three months ended March 31, 2006 than for the same period in 2005.

(iii) Furniture and equipment expense, comprised mainly of depreciation and maintenance expense, was $1.0 million and $0.7 million for the three months ended March 31, 2006 and 2005, respectively. As the Company opened its Corona Pointe administrative facility, expanded its banking network and redesigned its existing banking centers, expenses related to furniture and equipment increased. This expansion represents increases of $0.3 million or 34.6% over the prior period.

(iv) Other non-interest expense was $2.7 million and $2.1 million for the three months ended March 31, 2006 and 2005, respectively. This represents an increase of 32.7% over the prior period. The increase is due primarily to the Company's implementation of its strategy to grow its business.

The following is a breakdown of other non-interest expense for the three months ended March 31, 2006 and 2005:

(Dollars in Thousands)	Three Months Ended March 31,	
	2006	2005
Other non-interest expense:		
Data processing	$ 216	$ 194
Marketing	216	153
Professional services	425	293
Office supplies, postage and telephone	436	350
Insurance and assessments	166	209
Administrative	149	122
Business development	582	384
Other	530	353
Provision for off-balance sheet credit losses	10	-
Total other non-interest expense	$ 2,730	$ 2,058

Financial Condition

Assets

At March 31, 2006, total assets increased $144.8 million or 8.5% to $1.9 billion from $1.7 billion at December 31, 2005. Assets were comprised primarily of $1.5 billion in loans, net of unearned income, and $0.2 billion in investment securities available-for-sale at March 31, 2006. This represents an increase of $146.4 million or 10.7% in loans, net of unearned income, and a decrease of $10.7 million or 4.3% in investment securities available-for-sale from December 31, 2005.

Investments

All of the Company's securities in its portfolio are classified as available-for-sale. In accordance with SFAS No. 115, investment securities available-for-sale are carried at fair value and adjusted for amortization of premiums and accretion of discounts. Almost all of the Company's securities are insured by U.S. government agencies or U.S. government-backed agencies.

The Company's securities portfolio amounted to $238.0 million or 12.8% of total assets at March 31, 2006 and $248.7 million or 14.5% of total assets at December 31, 2005. The Company's investment portfolio decreased during the three months ended March 31, 2006 as a result of principal paydowns of securities. There were no investment purchases during the three months ended March 31, 2006.

The amortized cost and fair values of investment securities available-for-sale at March 31, 2006 were as follows:

(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency securities	$ 11,936	$ -	$ (913)	$ 11,023
Mortgage-backed securities	234,533	-	(9,658)	224,875
Mutual funds	2,143	-	(71)	2,072
Total	$ 248,612	$ -	$ (10,642)	$ 237,970

The amortized cost and fair values of investment securities, available-for-sale at December 31, 2005 were as follows:

(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency securities	$ 11,751	$ -	$ (126)	$ 11,625
Mortgage-backed securities	243,786	-	(8,806)	234,980
Mutual funds	2,121	-	(32)	2,089
Total	$ 257,658	$ -	$ (8,964)	$ 248,694

The Company has reviewed individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred. If an other-than-temporary impairment occurs, the cost basis of the security would be written down to its fair value as the new cost basis and the write down accounted for as a realized loss. The table below shows the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2006.

(Dollars in Thousands)	Less than 12 months		12 months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
U.S. agency securities	$ -	$ -	$ 11,023	$ (913)	$ 11,023	$ (913)
Mortgage-backed securities	19,260	(498)	205,615	(9,160)	224,875	(9,658)
Mutual funds	2,072	(71)	-	-	2,072	(71)
Total	$ 21,332	$ (569)	$ 216,638	$ (10,073)	$ 237,970	$ (10,642)

The table below shows the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005.

(Dollars in Thousands)	Less than 12 months		12 months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
U.S. agency securities	$ -	$ -	$ 11,625	$ (126)	$ 11,625	$ (126)
Mortgage-backed securities	81,636	(1,592)	153,344	(7,214)	234,980	(8,806)
Mutual funds	2,089	(32)	-	-	2,089	(32)
Total	$ 83,725	$ (1,624)	$ 164,969	$ (7,340)	$ 248,694	$ (8,964)

As of March 31, 2006 and December 31, 2005, the Company had 22 investment securities that were in an unrealized loss position. Despite the unrealized loss position of these securities, the Company has concluded, as of March 31, 2006, that these investments are not other-than-temporarily impaired. This assessment was based on the following factors: i) the financial condition and near-term prospects of the issuer; ii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; iii) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads; and iv) the length of time and the extent to which the market value has been less than cost.

The amortized cost and fair values of investment securities, available-for-sale at March 31, 2006, by contractual maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mutual funds with a fair value of $2.1 million are not included, as they do not have any stated maturity date.

(Dollars in Thousands)	**Securities Available-for-Sale**			
	Maturing 5-10 years		**Maturing after 10 years**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Mortgage-backed securities	$ 14,118	$ 13,819	$ 220,415	$ 211,056
U.S. agency securities	-	-	11,936	11,023
Total	$ 14,118	$ 13,819	$ 232,351	$ 222,079

There were no sales of investment securities during the three months ended March 31, 2006. Included in stockholders' equity at March 31, 2006 was $6.2 million of net unrealized losses, net of tax benefits, on investment securities, available-for-sale.

There were no sales of investment securities during the three months ended March 31, 2005. Included in stockholders' equity at March 31, 2005 was $5.2 million of net unrealized losses, net of tax benefits, on investment securities, available-for-sale.

Securities with a fair value of $235.9 million and $246.6 million at March 31, 2006 and December 31, 2005, respectively, were pledged to secure public monies as required by law and FHLB borrowings.

Loans

The Company’s loan portfolio grew by 10.7% during the first three months of 2006, net of loan participations and payoffs. Loans, net of unearned income, increased by $146.4 million from $1.4 billion at December 31, 2005 to $1.5 billion at March 31, 2006. Almost all of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area, which includes Los Angeles, Marin, Orange, Riverside, San Bernardino, San Diego and Ventura counties in California. The concentrations of credit by type of loan are set forth below:

(Dollars in Thousands)	As of	
	March 31, 2006	December 31, 2005
Commercial and industrial	$ 65,690	$ 54,757
Real estate construction:		
Singe-family coastal	456,832	392,183
Singe-family tract	146,869	129,706
Commercial	56,047	61,392
Real estate mortgage:		
Commercial	371,085	321,821
Multi-family residential	246,501	246,597
Land	95,936	91,035
All other residential	60,782	64,426
Consumer loans	23,690	15,205
All other loans (including overdrafts)	366	207
	1,523,798	1,377,329
Unearned premium on loans	743	484
Deferred loan fees	(5,028)	(4,714)
Loans, net of unearned income	$ 1,519,513	$ 1,373,099

The Bank originates SBA loans and generally sells portions of SBA loans to institutional investors. At March 31, 2006 and December 31, 2005, SBA loans totaled $16.7 million and $12.8 million, respectively, net of SBA participations sold in the amount of $41.9 million and $42.0 million, respectively. The Bank had $3.4 million of SBA loan participation sales during the three months ended March 31, 2006.

The Company retains servicing rights to the SBA loans sold and records servicing rights and interest-only strip receivables (collectively, “servicing rights”) related to the loans sold. The balance of capitalized servicing rights included in Other Assets on the Company’s Consolidated Balance Sheet at March 31, 2006 and December 31, 2005 was $1.2 million and $1.4 million, respectively. The fair values of these servicing rights approximate their book values respectively.

The following summarizes servicing rights capitalized and amortized for the periods indicated:

(Dollars in Thousands)	Three months ended	
	March 31, 2006	March 31, 2005
Servicing rights capitalized	$ 55	$ 106
Servicing rights amortized	$ 168	$ 205
Valuation allowances	$ -	$ -

The following table sets forth the activity relating to servicing rights for the three months ended March 31, 2006 and 2005.

(Dollars in Thousands)	Three months ended March 31,	
	2006	2005
Servicing rights, beginning of year	$ 1,358	$ 1,705
Servicing rights added in period, net	55	106
Servicing rights amortized	(168)	(205)
Servicing rights, end of period	$ 1,245	$ 1,606

The Bank had approximately $468.1 million and $452.4 million in loans pledged to secure FHLB borrowings at March 31, 2006 and December 31, 2005, respectively.

Allowance for Probable Loan Losses

The allowance for probable loan losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the Company's loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and economic conditions. The allowance is increased by a provision for probable loan losses, which is charged to expense and reduced by charge-offs, net of recoveries.

Transactions in the allowance for probable loan losses are summarized as follows for the periods indicated:

(Dollars in Thousands)	Three months ended	
	March 31, 2006	March 31, 2005
Balance, beginning of year	$ 13,762	$ 11,969
Recoveries on loans previously charged off	47	24
Loans charged off	(9)	(16)
Provision charged to operating expense	1,200	-
Balance, end of period	$ 15,000	$ 11,977

The provisions of SFAS No. 114 and SFAS No. 118 permit the valuation allowance for probable loan losses to be determined on a loan-by-loan basis or by aggregating loans with similar risk characteristics. The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

Nonperforming Assets

The following table sets forth the amounts and categories of the Company's non-performing assets at the dates indicated.

(Dollars in Thousands)	As of	
	March 31, 2006	December 31, 2005
Accruing Loans More than 90 Days Past Due		
Aggregate loan amounts		
Commercial and industrial	$ -	$ -
Real estate-mortgage	-	-
Consumer loans	-	-
Total loans past due more than 90 days and still accruing	$ -	$ -
Renegotiated loans	-	-
Non-accrual loans		
Aggregate loan amounts		
Commercial and industrial	$ 321	$ 477
Real estate-mortgage	136	480
Consumer loans	-	7
Total non-accrual loans	$ 457	$ 964
Total non-performing loans	$ 457	$ 964

The following is a summary of information pertaining to impaired loans for the dates and periods specified.

(Dollars in Thousands)	As of	
	March 31, 2006	December 31, 2005
Impaired loans with a specific valuation allowance	$ -	$ -
Impaired loans without a specific valuation allowance	457	964
Total impaired loans	$ 457	$ 964
Valuation allowance related to impaired loans	$ -	$ -

(Dollars in Thousands)	Three months ended March 31, 2006	Year ended December 31, 2005
Average recorded investment in impaired loans	$ 850	$ 3,472
Cash receipts applied to reduce principal balance	$ 636	$ 4,705
Interest income recognized for cash payments	$ 24	$ 338

If interest on non-accrual loans had been recognized at the original interest rates, interest income would have increased approximately $23,000 for the three months ended March 31, 2006 and $0.3 million for the year ended December 31, 2005.

Deposits

Deposits represent the Bank's primary source of funds for funding the Bank's loan activities. The Bank increased its deposits by $104.1 million or 8.1% from $1.3 billion at December 31, 2005 to $1.4 billion at March 31, 2006. The increase during the period was primarily due to increases of $42.7 million, $19.3 million, $2.2 million and $39.8 million in time deposits ("TCD's"), demand deposits, savings and NOW accounts, and money market accounts, respectively.

As of March 31, 2006, the Company's deposits were comprised of 12.6% in non-interest bearing deposits, 36.3% in money market, NOW and savings deposits, and 51.1% in TCD's, while the composition of deposits was 12.1%, 36.0% and 51.9%, respectively, at December 31, 2005.

At March 31, 2006, the scheduled maturities of time certificates of deposit in denominations of $100,000 or more are as follows:

(Dollars in Thousands)

Three months or less	$ 105,693
Over three through twelve months	285,217
Over one through five years	6,539
	$ 397,449

Borrowings

The Company utilizes borrowings such as FHLB advances, federal funds purchased, subordinated debt, junior subordinated debentures and lines of credit as a source of funds. During the first three months of 2006, the Company increased the balance of borrowings by $35.0 million to support the increase in earning-assets.

At March 31, 2006, the Company had a $70.0 million line of credit (the "credit facility") with a correspondent bank. The credit facility, which was $35.0 million as of December 31, 2005, was increased on March 17, 2006, pursuant to a loan agreement with the correspondent bank. The credit facility is collateralized by 100% of the Bank's common stock. In addition, the Bank has $86.0 million of unsecured borrowing lines with seven correspondent banks. At March 31, 2006, there was a $10.0 million outstanding balance on the Company's credit facility and no outstanding balance on the Bank's unsecured borrowing lines.

The Bank has an advance line with FHLB that allows the Bank to borrow up to 40% of the Bank's total assets as of March 31, 2006. Pursuant to the collateral agreement with FHLB, advances are secured by a capital stock investment in FHLB, certain investment securities and certain eligible loans. FHLB advances were $249.0 million and $214.0 million at March 31, 2006 and December 31, 2005, respectively. The 15.6% increase in FHLB advances and other borrowings was used to fund the growth of earning assets. FHLB advances consisted of the following as of March 31, 2006:

(Dollars in Thousands)

Maturity	Weighted Average Rate	Amount
2006	4.7%	$ 199,000
2007	4.8%	25,000
2008	4.8%	25,000
	4.8%	$ 249,000

As of March 31, 2006 and December 31, 2005, the Company had $96.9 million in junior subordinated debentures outstanding from nine issuances of trust preferred securities. Junior subordinated debentures as of March 31, 2006 consisted of the following:

(Dollars in Thousands)

			As of March 31, 2006		
	Interest Rate	Maturity Date	Minority Interest	Effective Interest Rate	Balance
Vineyard Statutory Trust I	3-month LIBOR + 3.60%	December 18, 2031	$ 372	8.53%	$ 12,372
Vineyard Statutory Trust II	3-month LIBOR + 3.35%	December 26, 2032	155	7.95%	5,155
Vineyard Statutory Trust III	3-month LIBOR + 3.05%	October 8, 2033	310	7.65%	10,310
Vineyard Statutory Trust IV	3-month LIBOR + 2.85%	January 23, 2034	310	7.51%	10,310
Vineyard Statutory Trust V	3-month LIBOR + 2.85%	April 23, 2034	310	7.45%	10,310
Vineyard Statutory Trust VI	3-month LIBOR + 2.85%	July 23, 2034	372	7.46%	12,372
Vineyard Statutory Trust VII	3-month LIBOR + 2.00%	December 16, 2034	310	6.82%	10,310
Vineyard Statutory Trust VIII	3-month LIBOR + 2.25%	May 23, 2035	310	7.02%	10,310
Vineyard Statutory Trust IX	3-month LIBOR + 1.70%	November 23, 2035	464	6.47%	15,464
			$ 2,913	7.38%	$ 96,913

Under FASB Interpretation No. 46R (“FIN 46R”), the Company is not allowed to consolidate the Trusts into the Company’s consolidated financial statements. Prior to the issuance of FIN 46R, bank holding companies typically consolidated these entities. The Company has excluded the Trusts from its consolidated financial statements.

On March 1, 2005, the FRB adopted a final rule that allows the continued inclusion of trust preferred securities in the Tier 1 capital of bank holding companies, subject to stricter quantitative limits and qualitative standards. Under the final ruling, qualifying mandatory preferred securities may be included in Tier 1 capital, subject to a limit of 25 percent of all core capital. Amounts of restricted core capital elements in excess of this limit generally may be included in Tier 2 capital. The quantitative limits become effective on March 31, 2009, after a four-year transition period. As of March 31, 2006, the Company has included a portion of its junior subordinated debentures in its Tier 1 Capital for regulatory capital purposes in accordance with the final rule.

The Company also has $5.0 million in subordinated debt which bears a floating rate of interest of 3.05% over the three month LIBOR and has a fifteen-year maturity with quarterly interest payments. The effective rate as of March 31, 2006 was 8.01%. The outstanding balance of this subordinated debt was $5.0 million at March 31, 2006 and December 31, 2005.

Stockholders’ Equity

Stockholders’ equity was $97.6 million and $100.0 million at March 31, 2006 and December 31, 2005, respectively. The decrease of $2.4 million in stockholders’ equity during the three months ended March 31, 2006 relates mainly to the $3.7 million reclassification of restricted stock in accordance with the implementation of SFAS No. 123R, the repurchase of $1.3 million in treasury stock, $1.0 million in preferred and common cash dividends declared, and a $1.0 million increase in unrealized loss during the period, offset by net income of $4.2 million.

The following table sets forth the information that was used in calculating the Company’s book value per common share as of March 31, 2006 and December 31, 2005:

	As of	
	March 31, 2006	December 31, 2005
Period-end shares outstanding	9,432,239	9,427,690
Unreleased and unallocated ESOP shares	(262,771)	(268,487)
Used in basic book value per common stock	9,169,468	9,159,203
Warrants [1]	160,000	160,000
Used in book value per common stock, assuming exercise of warrants	9,329,468	9,319,203
Book value per common stock, basic	$ 9.59	$ 9.86
Book value per common stock, assuming exercise of warrants	$ 9.85	$ 10.12

(1) Warrants were granted to institutional investors in June 2004 in conjunction with a private placement of common stock. These warrants have an exercise price of $25.00 per share and expire in June 2011.

Liquidity

The Company relies on asset-liability management to assure adequate liquidity and to maintain an appropriate balance between interest sensitive earning assets and interest-bearing liabilities. Liquidity management involves the ability to meet the cash flow requirements of customers. Typical demands on liquidity are withdrawals from demand deposits, savings, money market, and NOW accounts, as well as maturing time deposits, which are not renewed, and funding under credit commitments to customers. Interest rate sensitivity management seeks to avoid fluctuating interest margins to enhance consistent growth of net interest income through periods of changing interest rates.

The Bank’s Asset-Liability Management Committee manages the Company’s liquidity position, the parameters of which are approved by the Board of Directors. The liquidity position of the Bank is monitored daily. The Bank’s loan to deposits and borrowings ratio was 91.8% and 90.4% at March 31, 2006 and December 31, 2005, respectively.

Management believes the level of liquid assets at the Bank is sufficient to meet current and anticipated funding needs. The liquidity contingency process outlines authorities and a reasonable course of action in case of unexpected liquidity needs. As of March 31, 2006, the Company has a $10.0 million outstanding balance on its $70.0 million credit facility with a correspondent bank and no outstanding balance on its $86.0 million of unsecured borrowing lines with its seven correspondent banks. In addition, the Bank has an advance line with FHLB which allows the Bank to borrow up to 40% of the Bank’s total assets. As of March 31, 2006, the Bank has a total borrowing capacity from FHLB of approximately $740.9 million, of which $249.0 million is outstanding. This capacity can be used only if eligible collateral has been pledged to the FHLB. The FHLB advance line is collateralized by the Company’s capital stock investment in FHLB, pledged investment securities and pledged eligible loans.

Capital Resources

On August 31, 2005, the Company filed a universal shelf registration statement on Form S-3 with the SEC. The shelf registration statement was declared effective on September 27, 2005. The shelf registration statement permits the Company to offer and sell up to $125.0 million of various debt and/or equity securities from time to time in one or more public offerings. The terms of any such future offerings will be established at the time of each offering. The Company intends to use the proceeds from any such offering for general corporate purposes and to support the future anticipated growth of the Bank.

As part of the Company’s capital strategy, the shelf registration along with any trust preferred issuances will serve to support the organic growth strategy. These potential sources of capital will aid the Company in an efficient and effective execution of the strategic plan, while limiting the dilutive effect to shareholders and maintaining consistent capital ratios at both the Bank and the Company.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state 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 financial condition or operating results of the Company and the Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, as applicable, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company’s and the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company’s and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and 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) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of March 31, 2006, that the Company and the Bank meet all applicable capital adequacy requirements.

As of the most recent formal notification from the FDIC, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. Pursuant to regulatory guidelines under prompt corrective action rules, a bank must have total risk-based capital of 10% or greater, Tier 1 capital of 6% or greater and a leverage ratio of 5% or greater to be considered "well capitalized" (see table below). At March 31, 2006, the Bank's total risk-based capital, Tier 1 capital and leverage ratios were 12.3%, 11.4% and 11.5%, respectively. On a consolidated basis, the minimum ratios that the Company must meet are total risk-based capital of 8%, Tier 1 capital of 4% and a leverage ratio of 4%. At March 31, 2006, the Company's total risk-based capital, Tier 1 capital and leverage ratios were 12.2%, 7.7%, and 7.8%, respectively.

The following table sets forth the Bank's and the Company's actual regulatory capital amounts and ratios as of the dates indicated:

(Dollars in Thousands)			Capital Needed			
	Actual Regulatory		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
As of March 31, 2006						
Total capital to risk-weighted assets:						
Bank	$ 218,981	12.3%	$ 142,800	8.0%	$ 178,500	10.0%
Consolidated	$ 218,686	12.2%	$ 143,000	8.0%	N/A	N/A
Tier 1 capital to risk-weighted assets:						
Bank	$ 202,625	11.4%	$ 71,300	4.0%	$ 107,000	6.0%
Consolidated	$ 137,774	7.7%	$ 71,500	4.0%	N/A	N/A
Tier 1 capital to average assets:						
Bank	$ 202,625	11.5%	$ 70,700	4.0%	$ 88,300	5.0%
Consolidated	$ 137,774	7.8%	$ 71,100	4.0%	N/A	N/A
As of December 31, 2005						
Total capital to risk-weighted assets:						
Bank	$ 211,871	13.1%	$ 129,100	8.0%	$ 161,400	10.0%
Consolidated	$ 218,894	13.5%	$ 129,500	8.0%	N/A	N/A
Tier 1 capital to risk-weighted assets:						
Bank	$ 196,762	12.2%	$ 64,500	4.0%	$ 96,800	6.0%
Consolidated	$ 139,715	8.6%	$ 64,800	4.0%	N/A	N/A
Tier 1 capital to average assets:						
Bank	$ 196,762	11.7%	$ 67,300	4.0%	$ 84,100	5.0%
Consolidated	$ 139,715	8.3%	$ 67,700	4.0%	N/A	N/A

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's business is subject to interest rate risk and variations in interest rates may negatively affect its financial performance.

Like other financial institutions, the Company's operating results are largely dependent on its net interest income. Net interest income is the difference between interest income earned on interest-earning assets and interest expense incurred on interest-bearing liabilities. The Company's net interest income is impacted by changes in market rates of interest, the interest rate sensitivity of its assets and liabilities, prepayments on its loans and investment securities and limits on increases in the rates of interest charged on its loans. The Company expects that it will continue to realize income from the differential or "spread" between the interest income earned on loans, investment securities and other interest-earning assets, and interest expense incurred on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities.

The Company cannot control or accurately predict changes in market rates of interest. The following are some factors that may affect market interest rates, all of which are beyond the Company’s control:

- inflation;
- slow or stagnant economic growth or recession;
- unemployment;
- money supply and the monetary policies of the FRB;
- international disorders; and
- instability in domestic and foreign financial markets.

The Company may be vulnerable to a sharp increase in interest rates in the short-run because its interest-earning assets generally have longer repricing terms than its interest-bearing liabilities. Under such circumstances, material and prolonged increases in interest rates may negatively affect the Company’s market value of equity. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect the Company’s net interest spread, asset quality, loan origination volume, securities portfolio and overall profitability. Although the Company attempts to manage its interest rate risk, the Company cannot assure you that it can minimize its interest rate risk.

Interest Rates and Differentials

The Company’s earnings depend primarily upon the difference between the income it receives from its loan portfolio and investment securities and its cost of funds, principally interest expense incurred on savings, time deposits and borrowings. Interest rates charged on the Company’s loans are affected principally by the demand for loans, the supply of money available for lending purposes, and competitive factors. In turn, these factors are influenced by general economic conditions and other constraints beyond the Company’s control, such as governmental economic and tax policies, general supply of money in the economy, governmental budgetary actions and the actions of the FRB.

Asset/Liability Management

The Bank earns income principally from the differential or spread between the interest income earned on loans, investments and other interest-earning assets, and the interest expense incurred on deposits, borrowings and other interest-bearing liabilities. The Bank, like other financial institutions, is subject to interest rate risk to the degree that its interest-earning assets reprice differently than its interest-bearing liabilities. The Bank’s primary objective in managing its interest rate risk is to minimize the adverse impact of changes in interest rates on the Bank’s net interest income and capital, while maintaining an asset-liability balance sheet mix that produces the most effective and efficient returns.

Interest rate sensitivity varies with different types of interest-earning assets and interest-bearing liabilities. The Company intends to maintain interest-earning assets, comprised primarily of loans and investments, and interest-bearing liabilities, comprised primarily of deposits and borrowings, maturing or repricing in similar time horizons in order to minimize or eliminate any impact from interest rate changes.

A sudden and substantial increase or decrease in interest rates may adversely impact the Company’s operating results to the extent that the interest rates associated with the assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company has adopted formal policies and practices to monitor its interest rate risk exposure. As a part of its risk management practices, the Company uses the Economic Value of Equity (“EVE”) or Earnings at Risk (“EAR”) to monitor its interest rate risk.

The Company's overall strategy is to minimize the adverse impact of immediate incremental changes in market interest rates (rate shock) on EVE and EAR. The EVE is defined as the present value of assets, minus the present value of liabilities. The EAR is defined as the net interest income, which is interest income less interest expense. The attainment of this goal requires a balance between profitability, liquidity and interest rate risk exposure. To minimize the adverse impact of changes in market interest rates, the Company simulates the effect of instantaneous interest rate changes on EVE at period end and EAR over a one year horizon.

The table below shows the estimated impact of changes in interest rates on EVE and EAR at March 31, 2006, assuming shifts of 100 to 200 basis points in both directions:

(Dollars in Thousands)	Economic Value of Equity			Earnings at Risk		
Simulated Rate Changes		Cumulative Dollar Change	Cumulative Percentage Change		Cumulative Dollar Change	Cumulative Percentage Change
200	$	(17,431)	-6.4%	$	4,679	5.7%
100	$	(8,722)	-3.2%	$	2,274	2.8%
-100	$	11,344	4.1%	$	5,835	7.1%
-200	$	15,670	5.7%	$	11,456	13.9%

The amount and percentage changes represent the cumulative dollar and percentage change in each rate change scenario from the base case. These estimates are based upon a number of assumptions, including: the nature and timing of interest rate levels including yield curve, prepayments on loans and securities, pricing strategies on loans and deposits, replacement of asset and liability cash flows and other assumptions. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions including how customer preferences or competitor influences might change.

The Company has established operating limits for changes in EVE and EAR in each rate change scenario from the base case. At March 31, 2006, the Company's estimated changes in EVE and EAR were within the operating limits established by the Board of Directors for well-capitalized purposes. The Company will continue to monitor its interest rate risk through monitoring the relationship between capital and risk-weighted assets and the impact of changes in interest rates on EVE and EAR.

ITEM 4. CONTROLS AND PROCEDURES

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company is subject to legal actions and complaints. As of March 31, 2006, management is not aware of any material pending legal action or complaint asserted against the Company.

ITEM 1A. RISK FACTORS

Refer to the risk factors listed in Item 1A of the Company's Annual Report on Form 10-K, filed with the SEC on March 14, 2006.

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

Unregistered Sale of Equity Securities

None

Purchases of Equity Securities

The table below summarizes the Company's monthly repurchases and redemptions of its common equity securities during the three months ended March 31, 2006.

(Dollars in Thousands, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - 31, 2006	56,300	$ 30.19	56,300	$ 13,040
February 1 - 28, 2006	-	-	-	$ 13,040
March 1 - 31, 2006	19,200	28.79	19,200	$ 12,487
Total	75,500	$ 29.84	75,500	

(1) In July 2002, the Company adopted a stock repurchase program in the initial amount of $2.0 million. In December 2003, January 2005 and May 2005, the Company approved increases in its stock repurchase program of $5.0 million, and in October 2005, the Company announced an additional increase of $20.0 million in its stock repurchase program for a total amount of $37.0 million. Under its stock repurchase program, the Company has been acquiring its common stock shares in the open market from time to time. The Company's stock repurchase program does not have an expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

EXHIBIT NO.	DESCRIPTION
2.1	Agreement and Plan of Reorganization among Vineyard National Bancorp, Vineyard Bank, and Rancho Bank (14)*
3.1	Articles of Incorporation of Vineyard National Bancorp, as amended (1)
3.2	Bylaws of Vineyard National Bancorp (2)
4	Specimen Common Stock Certificate of Vineyard National Bancorp (3)
4.1	Form of Warrant to Purchase Shares of Common Stock (4)
4.2	The Registrant will furnish, upon request, to the Commission copies of all instruments defining the rights of holders of long-term debt instruments of the Registrant and its consolidated subsidiary.
4.3	Registration Rights Agreement (5)
4.4	Registration Rights Agreement (9)

10.1	Vineyard National Bancorp Nonqualified Deferred Compensation Plan (1)*
10.2	Vineyard National Bancorp Directors' Deferred Compensation Plan (1)*
10.3	Vineyard National Bancorp 1997 Incentive Stock Option Plan (1)*
10.4	Vineyard National Bancorp 2002 Restricted Share Plan (1)*
10.5	Form of 2002 Restricted Share Award Agreement (7)*
10.6	Vineyard National Bancorp 2003 Restricted Share Plan (10)*
10.7	Form of 2003 Restricted Share Award Agreement (7)*
10.8	Vineyard National Bancorp 2004 Restricted Share Plan (8)*
10.9	Form of 2004 Restricted Share Award Agreement (7)*
10.10	Vineyard National Bancorp 2005 Restricted Share Plan (12)*
10.11	Form of 2005 Restricted Share Award Agreement (15)*
10.12	Employment Agreement between Vineyard National Bancorp, Vineyard Bank and Norman A. Morales (6)*
10.13	Securities Purchase Agreement (5)
10.14	Securities Purchase Agreement (11)
10.15	Form of Change of Control Agreement (13)*
10.16	Loan agreement between Vineyard National Bancorp and First Tennessee Bank National Association*
11	Statement regarding computation of per share earnings. See Note 6 to the Consolidated Financial Statements included in Item 1 hereof
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act 0f 2002

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(1) Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Commission on March 28, 2003.

(2) Incorporated by reference from the Registrant's Registration Statement on Form S-8 (File No. 333-18217) filed with the Commission on December 19, 1996.

(3) Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 1988 filed with the Commission.

(4) Incorporated by reference from the Registrant's Proxy Statement for a special meeting held on December 18, 2002 filed with the Commission on November 25, 2002.

(5) Incorporated by reference from the Registrant's Form 8-K filed with the Commission on June 21, 2004.

(6) Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 filed with the Commission on March 30, 2001.

(7) Incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Commission on March 10, 2005.

(8) Incorporated by reference from the Registrant's Proxy Statement for an annual meeting held on May 22, 2003 filed with the Commission on April 14, 2003.

(9) Incorporated by reference from the Registrant's Form 8-K filed with the SEC on December 10, 2004.

(10) Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2004 filed with the Commission on November 10, 2004.

(11) Incorporated by reference from the Registrant's Form 8-K filed with the Commission on April 19, 2005.

(12) Incorporated by reference from the Registrant's Proxy Statement for an annual meeting held on May 25, 2005 filed with the Commission on April 18, 2005.

(13) Incorporated by reference from the Registrant's Form 8-K filed with the Commission on April 17, 2006.

(14) Incorporated by reference from the Registrant's Form 8-K filed with the Commission on April 20, 2006.

(15) Incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2005 filed with the Commission on November 4, 2005.

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on this 10th day of May 2006.

VINEYARD NATIONAL BANCORP

By: *<u>/s/ Norman A. Morales</u>*_____________________
Norman Morales
President and Chief Executive Officer

By: *<u>/s/ Gordon Fong</u>*__________________________
Gordon Fong
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

LOAN AGREEMENT

THIS LOAN AGREEMENT (hereinafter called "Agreement") made and entered into this ____ day of March, 2006, by and between **VINEYARD NATIONAL BANCORP**, a California corporation, (hereinafter called "Borrower") and **FIRST TENNESSEE BANK NATIONAL ASSOCIATION**, a national banking association having its principal office located in Memphis, Tennessee ("Lender").

W I T N E S S E T H :

WHEREAS, the Borrower desires to borrow from Lender **Seventy Million** Dollars ($70,000,000.00). NOW, THEREFORE, in consideration of the premises and the mutual agreements, covenants and conditions herein contained, the parties hereto hereby agree as follows:

AGREEMENTS

1. COMMITMENT AND FUNDING.

1.1 The Commitment. Subject to the terms and conditions herein set out, Lender agrees and commits to make a revolving loan (the "Loan") to Borrower in the amount of **Seventy Million** Dollars ($70,000,000.00). Such borrowing shall be evidenced by, and shall be payable in accordance with the terms and provisions of the Note (as hereinafter defined).

1.2 Funding. The advance of Loan proceeds hereunder shall be made, upon Borrower's request, by depositing the same into a demand deposit account with Lender or wire transfer to Borrower's account. The Loan to Borrower may be made, at Borrower's request, in one or more advances, each of which shall be subject to the terms and conditions of this Agreement, including but not limited to Sections 2.1 and 2.2 hereof. Advances under the Loan may be requested either orally or in writing by Borrower as provided in this paragraph. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instructions, or directions by telephone or otherwise to Lender are to be directed to Lender's office set forth below. The following persons, acting individually, currently are authorized to request advances and authorize payments under the Loan until Lender receives from Borrower, at Lender's address set forth below, written notice of revocation of their authority: Norman Morales, President & Chief Executive Officer of Borrower, Gordon Fong, Chief Financial Officer of Borrower, or Terry Snavely, Senior Vice President of Borrower.

1.3 Prepayments. The Borrower may, at its option, at any time and from time to time, without prepayment penalty or premium, prepay the Loan in whole or in part; provided, however, that any such prepayment of principal shall be accompanied by the payment of accrued interest on the amount of such prepayment to the date thereof. Any such prepayment shall be applied to reduce the principal installments under the Note in the inverse order of their maturities, and shall not have the effect of suspending or deferring payments thereunder. Principal amounts repaid by Borrower under the Loan may be re-borrowed from time to time commencing on the date of execution of the promissory note (the "Closing Date") through the Maturity Date in accordance with this Agreement and the other Loan Documents (defined below).

1.4 Interest Rate. The Loan indebtedness evidenced by the Note shall bear interest from date at the variable rate determined in accordance with the terms and provisions of the Note which will be 90-day LIBOR (as defined in the Note) plus 225 basis points.

1.5 Maturity. The line of credit will expire 364 days from the Closing Date (the "Maturity Date").

2. CONDITIONS OF LENDING.

2.1 Loan Documents. The obligation of Lender to fund the Loan is subject to the condition precedent that Lender shall have received at or before the execution of this Agreement all of the following in form and substance satisfactory to Lender.

a) A promissory note evidencing the Loan, in a form and substance acceptable to Borrower and Lender, executed by Borrower, as maker (such promissory note together with any renewals, modifications and extensions thereof is herein referred to as the "Note");

b) This Loan Agreement;

c) Current certificates of good standing for the Borrower in the State of California;

d) Certified corporate resolutions of Borrower authorizing the execution, delivery and performance of this Loan Agreement and of the other instruments and documents to be executed and delivered in connection herewith, and a certified copy of Borrower's charter and bylaws;

e) True and exact copies of the current financial statements of the Borrower and its subsidiary, Vineyard Bank (hereinafter called "Bank"). It being understood that Lender is relying upon such audit report and opinion in entering into this Loan Agreement including the unaudited financial statements of Borrower and Bank as of December 31, 2005 and the December 31, 2005 F.R. Y-6 Annual Report and F.R. Y-9 Parent Company only (and Consolidated, if applicable) financial statement (s) filed by Borrower with the Federal Reserve;

f) The opinion of Borrower's independent, third party counsel in the form approved by Lender, as to the due organization and valid existence of Borrower, the due authorization and execution by Borrower of the Loan Documents, the validity and enforceability of the Loan Documents against Borrower and such other matters as Lender shall require; and

g) The Pledge and Security Agreement (hereinafter called "Pledge Agreement"), executed by Borrower, granting to Lender a security interest in 100% of Borrower's capital stock in Vineyard Bank ("Pledged Shares") as security for the Line of Credit, together with irrevocable stock powers executed in blank with respect to such Pledged Shares, and the original certificates representing such Pledged Shares.

The Note, this Loan Agreement, and any other documents executed by Borrower in connection herewith shall be referred to hereinafter as the "Loan Documents".

2.2 Other Conditions. The obligation of the Lender to fund the Loan is subject to each of the following further terms and conditions:

a) At the time of funding, each of the Loan advances hereunder and each of Borrower's warranties and representations contained herein shall be and remain true and correct in all material respects. In addition, no Event of Default (as defined in Section 6 hereof) shall have occurred and be continuing, and, if requested by Lender, Borrower shall execute a certificate verifying each of such matters to be true in all respects, if such be the case.

b) At the time the loan is funded hereunder, there shall have occurred, in the reasonable opinion of Lender, no material adverse changes in the condition, financial or otherwise, of Borrower or its Bank from that reflected in the financial statements furnished pursuant to Section 2.1 hereof, including without limitation any such material adverse change resulting from or following the Conversion or a Merger, as defined below.

3. REPRESENTATIONS AND WARRANTIES.

In order to induce the Lender to enter into this Agreement and to make the Loan, the Borrower represents and warrants to the Lender (which representations and warranties shall survive the delivery of the Loan Documents and the funding of the Loan) that:

3.1 Corporate Status. Borrower is a corporation duly organized and existing under the laws of the State of California, is duly qualified to do business and is in good standing under the laws of the State of California, and has the corporate power and authority to own its properties and assets and conduct its affairs and business. Lender acknowledges that Borrower has notified Lender of its intent to convert the Bank to a national bank and/or convert the Borrower to a financial holding company (collectively, the "Conversion"). Concurrently with such Conversion, Borrower shall execute, deliver, provide and perform any documents and instruments reasonably required by Lender to ensure the continuing validity, priority and enforceability of the Loan, the Loan Documents and the liens created thereunder notwithstanding such Conversion.

3.2 Corporate Power and Authority. Borrower has full power and authority to enter into this Agreement, to borrow funds contemplated herein, to execute and deliver this Agreement, the Note and other Loan Documents executed and delivered by it, and to incur the obligations provided for herein, all of which have been duly authorized by all proper and necessary corporate action; and the officer executing each of the Loan Documents is duly authorized to do so by all necessary corporate action. Any consents or approval of shareholders or directors of Borrower required as a condition to the validity of any Loan Document have been obtained; and each of said Loan Documents is the valid, legal, and binding obligation of Borrower enforceable in accordance with its terms.

3.3 No Violation of Agreements or Law. To Borrower's knowledge, neither Borrower nor Bank is in default under any indenture, agreement or instrument to which it is a party or by which it may be bound, nor in violation of any state or federal statute, rule, ruling, or regulation governing its operations and the conduct of its business, operations or financial condition of Borrower or Bank. Neither the execution and delivery of the Loan Documents nor the consummation of the transactions herein contemplated, or compliance with the provisions hereof will conflict with, or result in the breach of, or constitute a default under, any indenture, agreement or other instrument to which Borrower is a party or by which it may be bound, or result in the creation or imposition of any lien, charge or encumbrance upon any of the property of Borrower except for the security interest in Borrower's common stock of the Bank as set forth herein, or violate or be in conflict with any provision of the charter or bylaws of Borrower.

3.4 Compliance With Law; Government Approvals.

(a) To Borrower's knowledge, Borrower has complied and is complying with all requirements, made all applications, and submitted all reports required by The Bank Holding Company Act of 1956, as amended, and any regulations or rulings issued in connection therewith, and the transaction contemplated hereby will not violate any such statutes, rules, rulings, or regulations nor will the consummation of said actions and transactions cause Borrower to be in violation thereof. Borrower has, if required, received all governmental approvals necessary for the consummation of the transactions described herein.

(b) To Borrower's knowledge, Borrower has complied and is complying with all other applicable state or federal statutes, rules, rulings and regulations. To Borrower's knowledge, the borrowing of money as described herein and said actions and transactions will not violate any of such statutes, rules, rulings, or regulations. Borrower has, if required, made all filings and received all governmental or regulatory approvals necessary for the consummation of the transactions described herein.

3.5 Litigation. There are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened against before any court, arbitrator or governmental or administrative body or agency which, if adversely determined, would result in any material and adverse change in the financial condition, business operation, or properties or assets of the Borrower or Bank. Without limiting the generality of the foregoing, neither Borrower nor Bank is subject to any Supervisory Action (herein defined) by any federal or state bank regulatory authority. As used herein, "Supervisory Action" shall mean and include the issuance by any bank regulatory authority of a letter agreement or memorandum of understanding (regardless of whether consented or agreed to by the party to whom it is addressed); or the issuance by or at the behest of any bank regulatory authority of a cease and desist order, injunction, directive, restraining order, notice of charges, or civil money penalties, against Borrower, Bank or the directors or officers of either of them, whether temporary or permanent.

3.6 Financial Condition. The balance sheets and the related statements of income of Borrower and Bank, which have been delivered to the Lender pursuant to Section 2.1 hereof and the financial reports of Borrower and Bank which will be delivered to Lender pursuant to Section 4.5 hereof are, or will be as of their respective dates and for the respective periods stated therein, complete and correctly and fairly present the financial condition of Borrower and Bank, and the results of their operations, respectively, as of the dates and for the periods stated therein, and have been, or will be as of their respective dates and for the respective periods stated therein, prepared in accordance with generally accepted accounting principles consistently applied throughout the period involved. There has been no material adverse change in the business, properties or condition of Borrower or Bank since the date of the financial statement furnished to Lender pursuant to Section 2.1 hereof.

3.7 Tax Liability. Borrower and Bank have filed all tax returns which are required to be filed by them, and have paid all taxes which have become due pursuant to such returns or pursuant to any assessments received by them.

3.8 Subsidiaries. As of the date first above written, Borrower has no subsidiaries and owns stock in no corporation or banking association other than Bank; and, other than Vineyard Service Corporation, Inc., a California corporation, Bank has no subsidiaries and owns no stock in any other corporation.

3.9 Bank Stock. The Pledged Shares are duly authorized and validly issued by the Bank and include all of Borrower's common stock in the Bank. The total number of shares of common stock of the Bank issued and outstanding as of the date hereof is 1,218,700 shares, of which all 1,218,700 shares are being pledged for this transaction. The Pledged Shares are free and clear of all liens, encumbrances, security interests or pledges except the pledge to Lender described herein; said Pledged Shares are fully paid and non-assessable; the Bank stock certificates delivered to Lender pursuant to the Pledge Agreement will be genuine and comply with applicable laws concerning form, content, and manner of preparation and execution; there are no outstanding warrants or options to acquire any common stock of the Bank; there are no outstanding securities convertible or exchangeable into shares of common stock of the Bank; there are no restrictions on the transfer or pledge of any shares of common stock of the Bank; Borrower has the right to pledge and transfer the Pledged Shares and assign the income therefrom without obtaining the consent of any other person or entity; and the Pledge Agreement creates for the benefit of Lender a first security interest in the Pledged Shares, subject to no other interests or claims.

4.0 AFFIRMATIVE COVENANTS. Borrower covenants and agrees that, until the Note together with interest thereon is paid in full, unless specifically waived by the Lender in writing, Borrower will, or will cause Borrower and Bank to:

4.1 Business and Existence. Both preceding and following any Conversion, perform all things necessary to preserve and keep in full force and effect the existence, rights and franchises of Borrower and Bank and to comply with all laws and regulations then applicable to Borrower and Bank, including, but not limited to, laws and regulations of state and federal authorities applicable to banks, bank holding companies and/or financial holding companies.

4.2 Maintain Property. Maintain, preserve, and protect all properties used or useful in the conduct of Borrower's and Bank's business and keep the same in good repair, working order and condition.

4.3 Insurance. At all times keep the insurable properties of Borrower and Bank adequately insured and maintain in force (i) insurance, to such an extent and against such risks, including fire, as is customary with companies in the same or similar business, (ii) necessary workmen's compensation insurance, fidelity bonds and directors' and officers' insurance coverage in amounts reasonably satisfactory to Lender, and (iii) such other insurance as may be required by law; and if reasonably requested by Lender, deliver to the Lender a copy of the bonds and policies providing such coverage and a certificate of Borrower's or Bank's chief executive officer, as the case may be, setting forth the nature of the risks covered by such insurance, the amount carried with respect to each risk, and the name of the insurer.

4.4 Taxes and Liens. Pay and discharge promptly all taxes, assessments, and governmental charges or levies imposed upon Borrower or Bank or upon any of their respective income and profits, or their properties, real, personal or mixed, or any part thereof, before the same shall become delinquent; provided, however, that Borrower and Bank shall not be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the amount or validity thereof shall be contested in good faith by appropriate proceedings.

4.5 Financial Reports. Furnish to Lender (a) as soon as available and in any event within ninety (90) days after the end of each calendar year, consolidated and consolidating balance sheets of Borrower and Bank, as of the end of such year and consolidated and consolidating statements of income of Borrower and Bank for the year then ended, together with the audit report and opinion of independent Certified Public Accountants acceptable to the Lender with respect thereto, such audit report and opinion shall contain no exceptions or qualifications unacceptable to Lender; (b) promptly upon receipt, copies of all management letters and other assessments and recommendations, formal or informal, submitted by the Certified Public Accountants to Borrower or Bank; (c) a copy of Borrower's FR Y-9 Parent Company Only (and Consolidated, if applicable) financial statement(s) and (d) a copy of Borrower's F.R. Y-6 Annual Report promptly upon the filing of the same with the Federal Reserve Board; and (e) a copy of Bank's Quarterly Report of Condition and Income ("Call Report") promptly upon the filing with the appropriate regulatory agency. The parties hereto acknowledge and agree that Borrower's filing of its Form 10K report with the Securities and Exchange Commission shall satisfy the provisions of clause (a) of the preceding sentence.

4.6 Regulatory Examinations. If legally permitted to do so, (a) promptly notify Lender upon receipt of any material correspondence, report, memoranda or other written communication between any federal or state regulatory body or authority, with respect to the properties, loans, operations and/or condition of Borrower, Bank or both; and (b) if required by Lender following an Event of Default (defined below), fully and completely assist and cooperate with Lender in requesting approval by such regulatory body or authority of the furnishing to Lender of any such report, and furnish such report to Lender if such approval is given; provided, however, that Lender shall take such steps as may be necessary to assure that all such reports shall remain confidential and shall be used by Lender solely in connection with the administration of the Loan in accordance with the provisions of this Agreement.

4.7 Additional Information. Furnish such other information regarding the operations, business affairs and financial condition of Borrower and Bank as Lender may from time to time reasonably request, including but not limited to true and exact copies of any monthly management reports to their respective directors, their respective tax returns, and all information furnished to shareholders.

4.8 Right of Inspection. Except to the extent, if any, prohibited by applicable law, permit any person designated by Lender, to inspect any of the properties, books and financial and other reports and records of Borrower and Bank, including, but not limited to, all documentation and records pertaining to Bank's loans, investments and deposits; and to discuss their affairs; finances and accounts with Borrower's and Bank's principal officers, at all such reasonable times and as often as Lender may reasonable request; provided, however, prior to the occurrence of an Event of Default, such inspections shall occur no more frequently than once per calendar quarter; provided, further, however, that Lender shall, and shall cause each person designated by Lender to conduct such inspections to, take such steps as may be necessary, to assure that all such inspections, together with the information resulting therefrom, shall remain confidential and shall be used by Lender and such persons solely in connection with the administration of the Loan in accordance with the provisions of this Agreement.

4.9 Notice of Default. At the time of Borrower's first knowledge or notice, furnish the Lender with written notice of the occurrence of any event or the existence of any condition which constitutes or upon written notice or lapse of time or both would constitute a default or an Event of Default under the terms of this Loan Agreement.

4.10 Compliance with Banking Regulations. At all times be in compliance with, cause Bank to be in compliance with, all banking, bank holding company and other laws, rules and regulations applicable to Borrower or Bank.

4.11 Capital Ratio/Equity Capital Adequacy. Borrower and Bank shall maintain at all times a "Well Capitalized" rating as required by any applicable regulatory authority as such requirement may be revised from time to time; provided, however, Borrower shall maintain a consolidated leverage ratio (Tier 1 Capital to tangible assets) of not less than Seven Percent (7.00%) and Bank not less than $191,961,000 in Capital. For purposes hereof, "Tier 1 Capital" is defined in Appendix A to Title 12, Code of Federal Regulations, Part 225n, Capital Adequacy Guidelines for Bank Holding Companies.

4.12 Loan Loss Reserves. With respect to Bank, maintain at all times loan loss reserves in amounts deemed adequate by all federal and state regulatory authorities.

4.13 Compliance Certificate. Furnish Lender a certificate of compliance duly certified by the Chief Financial Officer of Borrower within thirty (30) days after the end of each calendar quarter stating that Borrower and Bank are in compliance with all terms, covenants and conditions of this Loan Agreement and all related Loan Documents.

5.0 NEGATIVE COVENANTS. Borrower covenants and agrees that, until the indebtedness evidenced by the Note, together with interest, is paid in full, Borrower will not, without the prior written consent of the Lender:

5.1 Indebtedness. Create, incur, assume or suffer to exist, contingently or otherwise, any indebtedness, except for the following indebtedness:

i) the indebtedness of Borrower under the Loan;

ii) operating expenses incurred by Borrower in the ordinary course of business;

iii) indebtedness reflected on Borrower's financial statements dated as of December 31, 2005;

iv) federal funds purchased and borrowings from the Federal Home Loan Bank in the ordinary course of business;

v) that certain proposed borrowing base revolving line of credit secured by a portion of the Bank's construction loan portfolio to be made by Lender, as "Lead Bank," and such other lenders that may participate in such loan;

vi) any indebtedness contemplated under that certain Form S-3 Registration Statement under the Securities Act of 1933 filed with the Securities and Exchange Commission August 31, 2005; and

vii) Any indebtedness that is not superior or senior in the right of payment to the Loan.

5.2 Dividends, Redemptions and Other Payments. Declare or pay any dividends if an Event of Default has occurred and is continuing under this Agreement or the payment of a dividend would create an Event of Default. The payment of any dividend shall in all respects comply with the Rules and Regulations of the Federal Reserve Board.

5.3 Capital Expenditures. Make or become committed to make, or permit Bank to make or to become committed to make, directly or indirectly, during any calendar year, capital expenditures which for Borrower and Bank exceed amounts deemed acceptable to applicable regulatory authorities.

5.4 Relocation. Cause or permit Borrower or the bank to relocate their principal office, principal banking office, principal registered office or approved charter location except as deemed acceptable to applicable regulatory authorities. Lender will not unreasonably withhold its consent to a relocation as set forth in the preceding sentence. Notwithstanding the provisions of the preceding sentence, Lender hereby consents to the Conversion, subject to the provisions of Section 3.1.

5.5 Sale of Assets. Sell, lease, transfer or dispose of all or any material part of its assets, including the assets of any of its subsidiaries, other than in the normal course of business.

5.6 Mergers, Consolidations and Restructuring. Merge, consolidate with any entity or restructure, or allow the Bank to merge, consolidate with any entity, or restructure (collectively, a "Merger") other than (i) the Conversion (subject to Section 3.1 hereof), and (ii) one or more Merger transactions where the Borrower or the Bank (as applicable) is the surviving entity and, concurrently with such Merger, Borrower or the Bank (as applicable) executes, delivers, provides and performs any documents and instruments reasonably required by Lender to ensure the continuing validity, priority and enforceability of the Loan, the Loan Documents and the liens created thereunder notwithstanding such Merger.

5.7 Stock. Sell, transfer or otherwise dispose of or further encumber any Pledged Shares or permit the Bank to issue additional shares of stock or rights, options or securities convertible into capital stock of the Bank except in connection with a Merger contemplated under (and subject to the terms and conditions of) clause (ii) of Section 5.6 hereof.

5.8 Charter or By-Law Amendments. Other than in connection with the Conversion (subject to Section 3.1 hereof) or a Merger contemplated under (and subject to the terms and conditions of) clause (ii) of Section 5.6 hereof, adopt, amend or enter into, as applicable (or permit the Bank to adopt, amend or enter into, as applicable), any charter, articles of incorporation, bylaws or other provisions or agreements that would affect in any way the rights, obligations and/or preferences of the Pledged Shares.

6.0 DEFAULT AND REMEDIES.

6.1 Events of Default. Any one or more of the following events shall constitute a default ("Event of Default") under the terms of this Agreement:

(a) Default in the payment when due of the principal of or interest on the Note.

(b) Default in the performance of any provisions or breach of any covenant of this Agreement or any other Loan Document.

(c) If any representation or warranty or any other statement of fact contained herein, in any other Loan Document, or in any writing, certificate, or report or statement at any time furnished to Lender pursuant to or in connection with this Agreement shall prove to be false or misleading in any material respect.

(d) If Borrower or Bank files a petition in bankruptcy or seeks reorganization or arrangements under the Bankruptcy Code (as it now exists or as amended); is unable or admits in writing its inability to pay its debts as they become due or is not generally paying its debts as they come due; makes an assignment for the benefit of creditors; has a receiver, custodian or trustee appointed voluntarily or involuntarily, for its property; or is adjudicated bankrupt; or if an involuntary petition is filed in bankruptcy, for reorganization or arrangements, or for the appointment of a receiver, custodian or trustee of Borrower or Bank on their respective properties and if Borrower or Bank either acquiesce therein or fails to have such petition dismissed within sixty (60) days of the filing thereof.

(e) If Bank shall fail to maintain an annualized return on total average assets of at least **Ninety one hundredths of one percent (.90%)** as of the date of all financial reports required by regulatory authorities. "Total average assets" shall be deemed to mean the year-to-date average of total assets of Bank.

(f) If the Bank's non-performing loans exceed **Two and one quarter percent (2.25%)** of the Bank's gross loans. For purposes hereof, "non-performing loans" shall be defined as the sum of all loans whose installments or prepayments are 90 days or more past due plus all loans that are on non-accrual plus those loans which have been renegotiated (as defined by the regulatory agencies) or restructured to provide a reduction in either interest or principal because of a deterioration in the financial position of the borrower.

(g) If there shall at any time occur without the prior written approval of Lender a change in control (including any change in control under the Change in Bank Control Act of 1978, as amended, and any transaction or restructuring which requires approval under the Bank Holding Company Act of 1956, as amended) of Bank or Borrower.

(h) If there shall occur the issuance by or at the request of any bank regulatory authority of any Supervisory Action (as defined in Section 3.5 hereof) or the taking by Borrower or Bank of any action of the sort described in Section 3.5 to prevent or forestall the imposition by such bank regulatory authority of any such Supervisory Action.

(i) If Borrower or Bank shall default beyond any applicable cure or grace period in the timely payment or performance of any obligation now or hereafter owed to Lender in connection with any other loan facility of Borrower or Bank now or hereafter owed to Lender.

6.2 Cure Periods. If any Event of Default, other than a payment default (whether of principal, interest or any other sum required to be paid under any Loan Documents) or a default under paragraphs 6.1(d) or 6.1(i) hereof, is curable and if Borrower has not been given notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured if Borrower, after receiving written notice from Lender demanding cure of such Event of Default: (1) cures the default within fifteen (15) days after receipt of such notice; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in its reasonable discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps to cure the default within ninety (90) days after delivery of Lender's original default notice.

6.3 Remedies. If an Event of Default shall occur, at any time thereafter, Lender may, at its option without demand or notice (except as otherwise provided herein), the same being expressly waived, declare the Loan, with interest thereon, to be immediately due and payable, and may proceed to exercise all rights and remedies available under the Loan Documents, at law or in equity, concurrently or sequentially, in such order as Lender may elect, all such rights and remedies being cumulative.

7.0 MISCELLANEOUS.

7.1 Amendments. The provisions of this Loan Agreement and the other Loan Documents may be amended or modified only by an instrument in writing signed by the parties thereto.

7.2 Notices. All notices and other communications provided for hereunder shall be in writing and shall be mailed, certified mail, return receipt requested or personally delivered or delivered by recognized overnight courier service such as Federal Express, if to the Borrower, at 8105 Irvine Center Drive, Suite 600, Irvine, CA 92618 attention: Gordon Fong, CFO, and if to the Lender, to it at 845 Crossover Lane, Suite 150, Memphis, Tennessee, 38117, Attention: Correspondent Services; or as to any such person at such other address as shall be designated by such person in a written notice to the other parties hereto complying as to delivery with the terms of this Section 7.2. All such notices and other communications shall be effective (i) if mailed, when received or three business days after mailing, whichever is earlier; or (ii) if personally delivered, upon delivery; or (iii) if sent by a recognized overnight courier service, on the next business day after being deposited with such overnight courier service.

7.3 No Waiver, Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Lender, any right, power or privilege hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. Waiver of any right, power, or privilege hereunder or under any instrument or document now or hereafter evidencing or securing the Loan is a waiver only as to the specified item. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

7.4 Binding Effect. This Loan Agreement shall be binding upon, and inure to the benefit of the parties hereto and their respective heirs, successors, and assigns, except that Borrower shall not have the right to assign its rights hereunder or any interest therein without the prior written consent of Lender.

7.5 Governing Law. This Loan Agreement shall be governed and construed in accordance with the laws of the State of Tennessee.

7.6 Venue of Actions. As an integral part of the consideration for the making of the Loan hereunder, it is expressly understood and agreed that no suit or action shall be commenced by Borrower, or by any successors, personal representatives or assignees of it, with respect to the Loan contemplated hereby, or with respect to any of the Loan Documents, other than in a state court of competent jurisdiction in and for the County of the State in which the principal place of business of the Lender is situated, or in the United States District Court for the District in which the principal place of business of the Lender is situated, and not elsewhere. Nothing in this paragraph contained shall prohibit Lender from instituting suit in any court of competent jurisdiction for the enforcement of its rights hereunder or under any other Loan Document, but the parties stipulate and agree that the courts specified in the preceding sentence of this section shall be an appropriate forum for any such suit.

7.7 Terminology; Section Headings. All personal pronouns used in this Loan Agreement whether used in the masculine, feminine, or neuter gender, shall include all other genders; and the singular of any such pronoun or of any term defined herein shall include the plural, and vice versa. Section headings are for convenience only and neither limit nor amplify the provisions of this Loan Agreement.

7.8 Enforceability of Agreement. Should any one or more of the provisions of this Loan Agreement be determined to be illegal or unenforceable, all other provisions nevertheless, shall remain effective and binding on the parties hereto. In the event that the provisions of the Note or this Loan Agreement governing the determination of the rate of interest on the Loan should be construed by a court of competent jurisdiction not to constitute a valid, enforceable designation of a rate of interest or method of determining the same, the Loan indebtedness shall bear interest at the maximum effective variable contract rate which may be charged by Lender under applicable law from time to time in effect.

7.9 Interest Limitations. It is the intention of the parties hereto to comply strictly with all applicable usury laws; and, accordingly, in no event and upon no contingency shall Lender ever be entitled to receive, collect, or apply as interest any interest, fees, charges or other payments equivalent to interest, in excess of the maximum rate for which Borrower may lawfully contract under applicable law, from time to time in effect. Any provision hereof, or of any other agreement executed by Borrower that would otherwise operate to bind, obligate or compel Borrower to pay interest in excess of such maximum lawful rate shall be construed to require the payment of the maximum rate only. The provisions of this paragraph shall be given precedence over any other provisions of this paragraph shall be given precedence over any other provisions contained herein or in any other agreement applicable to the Loan, that is in conflict with the provisions of this paragraph.

7.10 Non-Control. In no event shall Lender's rights hereunder be deemed to indicate that Lender is in control of the business, management or properties of Borrower or Bank or has power over the daily management functions and operating decisions made by Borrower or Bank.

7.11 Fees and Expenses. Borrower agrees to pay Lender a fee of Ten Thousand Dollars ($10,000) for actual out-of-pocket expenses, including due diligence expenses, incurred by Lender in connection with the development, preparation, execution, recording of loan and loan documents. In addition to such $10,000.00, Borrower shall pay Lender's legal fees. Any expenses related to future amendment, administration or enforcement of, or the preservation of any rights under this Loan Agreement and the other Loan Documents, or the collection of the Loan therefore will also be at the expense of the Borrower.

7.12 Indemnification. Borrower hereby agrees to indemnify Lender against, and hold Lender harmless from, any and all claims, suits and damages asserted against Lender by any person or entity arising out of or asserted with respect to the transactions contemplated by this Loan Agreement and shall pay all attorneys' fees and costs in connection with the defense of any such claim; provided, however, Borrower shall have no obligation to indemnify Lender to the extent such claims, suits or damages arise from or relate to Lender's gross negligence or willful misconduct.

7.13 Borrower's Knowledge. As used herein, the terms "to the knowledge of the Borrower," "Borrower's first knowledge or notice," and "to Borrower's knowledge" shall mean the knowledge of the officers and employees of the Bank directly engaged in the transactions contemplated under the Loan Documents.

7.14 Further Assurances. Borrower agrees to furnish a current financial statement upon the request of Lender from time to time, and further agrees to execute and deliver all other instruments and take such other actions as Lender may from time to time reasonably request in order to carry out the provisions and intent hereof.

7.15 Waiver of Right to Trial by Jury. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH WHETHER NOW EXISTING OR HEREAFTER ARISING: AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Borrower and Lender have caused this Agreement to be duly executed by their respective officers thereunto duly authorized as of the day and year first above written.

BORROWER

VINEYARD NATIONAL BANCORP

By: */s/ Gordon Fong*_____________________________

Name: Gordon Fong ______________________________

Title: Executive Vice President and Chief Financial Officer

ATTEST

By: */s/ Terry Snavely*_____________________________

Name: Terry Snavely_____________________________

Title: Senior Vice President and Controller____________

LENDER

FIRST TENNESSE BANK,
National Association

By: */s/ David House*_____________________________

Name: David House_____________________________

Title: Vice President_____________________________

CERTIFICATION

I, Norman Morales, President and Chief Executive Officer (Principal Executive Officer), certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vineyard National Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the 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 registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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: May 10, 2006

By: */s/ Norman A. Morales*

Norman A. Morales
President and Chief Executive Officer

CERTIFICATION

I, Gordon Fong, Executive Vice President and Chief Financial Officer (Principal Financial Officer) certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vineyard National Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the 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 registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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: May 10, 2006

By: */s/ Gordon Fong*

Gordon Fong
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION*
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Vineyard National Bancorp (the "Company") on Form 10-Q for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigneds hereby certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the undersigneds' best knowledge and belief:

(a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated this 10th day of May, 2006.

Vineyard National Bancorp
("Company")

/s/ Norman A. Morales

Norman A. Morales
President and Chief Executive Officer

/s/ Gordon Fong

Gordon Fong
Executive Vice President and Chief Financial Officer

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